

**BUDGET PROCESS: TESTIMONY OF DR. ROBERT D.
REISCHAUER, DIRECTOR, CONGRESSIONAL
BUDGET OFFICE**

Y 4. 3: S. HRG. 103-30

Budget Process: Testimony of Dr. Ro...

HEARING

BEFORE THE

**JOINT COMMITTEE ON THE
ORGANIZATION OF CONGRESS**

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

**BUDGET PROCESS: TESTIMONY OF DR. ROBERT D. REISCHAUER,
DIRECTOR, CONGRESSIONAL BUDGET OFFICE**

MARCH 4, 1993



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BUDGET PROCESS: TESTIMONY FROM DR. ROBERT D. REISCHAUER, DIRECTOR, CON- GRESSIONAL BUDGET OFFICE

THURSDAY, MARCH 4, 1993

**UNITED STATES CONGRESS,
JOINT COMMITTEE ON THE ORGANIZATION OF CONGRESS,
Washington, DC.**

The committee met, pursuant to notice, at 10 a.m. in room SC-5, The Capitol, Hon. Lee H. Hamilton (co-chairman of the committee) presiding.

Chairman HAMILTON. The joint committee will come to order.

OPENING STATEMENT OF HON. LEE H. HAMILTON, A U.S. REPRESENTATIVE FROM THE STATE OF INDIANA

Chairman HAMILTON. This morning the Joint Committee on the Organization of Congress will begin 7 days of hearings which will examine how the Federal budget process might be reformed.

Today we hear from Dr. Robert Reischauer, the director of the Congressional Budget Office, who will testify about budget process issues in general. Dr. Reischauer, of course, is very well known to members of this committee and to Members of Congress. After helping Alice Rivlin set up the Congressional Budget Office, he served at various points as assistant director, deputy director, and now director of the Congressional Budget Office. He is a nationally known practitioner and scholar of Federal budget policy and he is an excellent witness for the joint committee to begin its hearings about the budget process reform.

The budget process is one of the most complex reform areas on the agenda of the joint committee. Over the next several weeks we will hear about a diverse range of reform proposals from multi-year budgeting to improving the quality of the information used in the budget process. These issues are highly complex. Indeed, this is one of the problems with the current budget process. Very few people can understand it.

As a result, I believe that the members of the joint committee should lay out a few simple premises to provide some structure and perspective for thinking about specific proposals for reforming the budget process. My view is that we should give particular emphasis to three principles as we evaluate how current budgetary procedures and structures might be improved.

First, the budget process should allow ordinary people, to the extent possible, to discern who is responsible for budgetary policy. Second, the budget process should promote consideration of long-

term as well as short-term concerns. And third, decisions about the budget should be honest and, to the extent possible, based on reliable information and assumptions. Thus, I am particularly interested in proposals to reform the budget process that would help citizens hold their representatives in both Congress and the Executive Branch responsible for budget outcomes, promote long-term thinking in the budget process, and put an end to the rosy scenarios and the manipulation of budget information for partisan political gain.

I want to thank Dr. Reischauer for his willingness to appear—with all of the other things that he has to do—before this joint committee. We look forward to his testimony.

I will ask if either of my colleagues have a comment.
Senator Stevens?

OPENING STATEMENT OF HON. TED STEVENS, A U.S. SENATOR FROM THE STATE OF ALASKA

Senator STEVENS. Mr. Chairman, I thank you for recognizing me. I want you to know that I concur in your outline as to what this committee should cover.

I would like to throw in the possibility of thinking about whether Congress ought not to take the lead in the budget process and at the end of a session of Congress deliver to the President its estimate of what the ongoing programs will cost and have some guidelines set down in the budget process for the Executive Branch for the coming year.

It does seem to me that we carp and criticize, but we really don't give much real thought to the future as we deal with the coming year in our budget and appropriations process. I would throw out for consideration that perhaps the Budget Committee ought to have the duty to also, once we get into the reconciliation process, projecting for the Executive Branch and giving some guidance to the Executive as to what the priorities of Congress are for the following year and the next session of Congress. That way, we would share part of the burden and also have an opportunity to outline our priorities.

So often people talk about the line item veto in the sense of removing the changes that Congress makes in the Executive budget, which is still within the overall top limit of spending agreed to by both the Executive and Legislative Branches. I don't think the Members of Congress have enough input into the budget process looking out into the future.

I welcome your comments about long-term as well as short-term reaction to the budget process.

Chairman HAMILTON. Thank you very much, Senator Stevens.

If there are no more comments from my colleagues, Dr. Reischauer, we look forward to your testimony. You may proceed.

STATEMENT OF DR. ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. REISCHAUER. Thank you, Mr. Chairman and members of the committee.

I appreciate the opportunity to discuss the budget process with you here this morning. I have a prepared statement which I will

submit for the record and I will summarize what that statement has to say about three different topics.

First, two roles the budget process has been asked to play in recent years; second, what recent experience has taught us about what can and cannot be expected of the budget process; and third, the advantages and limitations of a few of the many structural changes that have been proposed throughout the years for the budget process.

The traditional role the budget process has played has been to prescribe the general rules and procedures that govern the presentation of the budget by the President and the deliberations on the budget by the Congress. The Budget Accounting Act of 1921 and the Congressional Budget and Impoundment Control Act of 1974 lay out these rules and procedures. The latter formalized and strengthened Congress' role in the budget process immeasurably. It required an annual concurrent budget resolution, which gave the Congress a mechanism for explicitly considering the budget as a whole. It also gave Congress a means of coordinating its various budget-related activities.

In addition, the Congressional Budget Act beefed up and centralized Congress' budgetary capacity by creating two budget committees and the Congressional Budget Office.

But the new process was neutral with respect to budget outcomes. In other words, it didn't require a certain budgetary outcome. This neutrality, of course, ended when it became apparent that the large budget deficits of the early 1980s were structural and were likely to persist. A new role was to find for the process at that time namely that of forcing deficit reduction. This role was codified in the Balanced Budget and Emergency Deficit Control Act of 1985, popularly known as Gramm/Rudman/Hollings, and the Budget Enforcement Act of 1990.

We have now lived 7 years under laws that have tried to use the budget process to reduce the deficit. I think several useful lessons have been learned from this experience. The first of these is the importance of structure and information to rational deficit reduction.

While there are many critics of the current system, imagine what the deficit reduction effort would have been like under the pre-1974 system when the Congress had no capacity to focus comprehensively on budget totals and never had to vote on overall spending or overall revenues. Because it has to vote on the whole and on the deficit, the Congress has been forced to make trade-offs among conflicting priorities.

Moreover, even though the Budget Act has complicated the legislative process, it also has provided the Congress with important capacities that previously did not exist. For example, the independent information that the Congress has needed to operate its budget process has allowed it to evaluate not only the Administration's but also its own deficit reduction proposals in an objective manner. The caliber of this information I think has enhanced the credibility of the Congress and improved the quality of its decisions.

A second lesson that comes out of our recent experience is that budget procedures are much better at enforcing compliance with previous decisions than at forcing predetermined goals. The experi-

ence under Gramm/Rudman/Hollings demonstrated that if the President and the Congress are unwilling to agree on painful deficit reduction measures, no budget procedure is likely to force them into some agreement.

However, if the President and Congress can agree on and enact a painful package of spending cuts and tax increases, budget procedures that highlight and penalize deviations from that agreement can be highly effective. This has been shown by our experience with the Budget Enforcement Act.

This lesson I think has relevance for those who argue that a constitutional amendment requiring a balanced budget or caps on mandatory spending might be an effective way to address the deficit problem.

A third lesson we have learned is that the viability of the budget process depends crucially on the extent to which it is perceived as fair, and on the flexibility it affords participants to respond to changing conditions. The Gramm/Rudman/Hollings Act with its fixed deficit targets had little flexibility. When the deficit was estimated to exceed the fixed targets, it was virtually impossible to identify who or what was responsible.

Numerous factors, including ones not directly under control of any of the budget participants—and example would be slower than expected economic growth—could be to blame for missing the deficit targets. Furthermore, the punishment of sequestration was inflicted on all eligible programs, even those that might have already been cut in an effort to meet the targets.

I short, the process was not perceived as being fair. This is one of the reasons why it failed.

In contrast, the Budget Enforcement Act, which set specific targets or goals for different segments of the budget, makes it easier to identify those responsible for departures from the budget agreement. It applies sequestration more precisely to those who have contributed to the problem. It is fairer and therefore has been more viable.

With respect to flexibility, the Federal Government must respond to serious economic downturns and other emergencies such as natural disasters or international crises that can cannot always be anticipated. The budget process must recognize these realities.

The Budget Enforcement Act has done this by establishing explicit exceptions for discretionary appropriations, mandatory spending, and taxes that the Congress and the President both designate as emergencies. This flexibility, as you know, has been used with respect to the Desert Storm spending, with respect to assistance to Kurdish refugees, to react to domestic natural disasters such as hurricanes and earthquakes, and to respond to civil disorders.

Let me turn now and say a few words about several changes in the budget process that have been proposed over the past few years. One category of reforms would alter the timing of some budget decisions in an effort to rationalize the process and save legislative time. Biennial budgeting is a prime example of this type of reform.

While proponents of biennial budgeting argue that it would free up the Congress to concentrate on non-budgetary issues, such as

oversight, during the non-budgetary year, it also might make agreements more difficult to achieve since the stakes would be higher. Furthermore, as one who knows how uncertain budget estimates are, even for 1-year out, I shudder at the thought of budgeting for a 2-year time period, especially when the budget is in severe disequilibrium.

Under a system of biennial budgeting much of the off-year might be spent making adjustments to the decisions that were made in the budget year to account for the unexpected changes that undoubtedly would occur in economic conditions and political situations.

Another group of reform aims to increase the President's role in the budget process by making the budget resolution a joint resolution requiring the presidential signature, or by granting increased authority for the President to veto individual items in appropriation bills. Proponents of a joint resolution believe that this will encourage agreement on the broad outlines of the budget, thus eliminating the need for budget summits toward the end of the congressional session.

It is equally possible, however, that a joint resolution could promote increase conflict and stalemate at an even earlier stage of the process, making it even more difficult to reach agreement on a congressional budget. Further, a joint budget resolution would expand the importance of the budget resolution relative to later committee actions, which would shift the balance of power within the Congress, which of course is a concern of this committee.

Advocates of the line item veto and its statutory relatives believe that the President, as the chief representative of the general interests, should have the power to strike provisions that serve only narrow interests. However, such proposals would shift power to the Executive Branch and may do little to reduce the deficit. One reason for this is that these measures would apply only to discretionary spending which represents less than 40 percent of the budget, and in recent years has been a shrinking proportion of the total.

It should be remembered also that discretionary spending is currently controlled through the Budget Enforcement Act spending caps, so the impact of a line item veto, enhanced rescission, or some relative thereof might be relatively small. Furthermore, presidents may use their new powers not to reduce spending, but rather to bargain for congressional approval of their own spending priorities, which seems to be the experience of the States.

It is also worth noting that a line item veto or its statutory substitutes could increase the congressional workload if the Congress was periodically having to address these issues.

There are, of course, a lot of other reforms that focus on coverage of the budget and on the information provided to decisionmakers, proposals to remove the Federal trust funds for the budget, to increase the coverage of the budget to include Government-sponsored enterprises, the costs the Federal Government shifts onto State and local governments or onto private businesses, the notion that we should adopt capital budgeting, or we should expand accrual accounting fall into these categories of reform. All have their strengths and all have their limitations.

Let me conclude by reminding everyone that the process we have now would look a lot better if a \$300 billion deficit was not staring us in the face. But we should also keep in mind that the process is not responsible for that \$300 billion deficit. In fact, I would argue that it has limited the size of that deficit.

Reforms might be desirable, but we should not pretend that procedural changes can succeed where politicians have feared to tread. Furthermore, we do not want to lock into concrete procedures that might be suitable for a situation of extreme disequilibrium if we think that at some time in the future, after we have adopted suitable policies, the deficit might not be a front-page problem.

Changes to the budget process should be made only systematically and only carefully. Above all, I would urge you to avoid outcome focused reforms which might have the superficial appeal of addressing the deficit problem head-on, but in fact have a very poor track record of success.

That completes the summary of my statement and I will be glad to answer the questions that the members of the committee might have.

[The prepared statement of Dr. Reischauer is printed in the Appendix.]

Chairman HAMILTON. Thank you very much, Dr. Reischauer, for an excellent statement.

We will begin with questions.

I will just ask one question with two parts to it. I would like you to comment.

I guess the single most frequent complaint you hear among Members about the budget process is that it is just too complicated and too complex. The question is: Are we kidding ourselves if we think we can make this process simpler? What do you suggest with regard to the criticism of complexity of the budget process?

The second question relates to the manipulation of revenue and spending projections. Some say that figures are deliberately manipulated in order to get outcomes, economic assumptions, rosy scenarios, and all the rest of it. Is that a problem today? Do you feel that the CBO is sufficiently insulated from that kind of manipulation of the figures? What comment do you have with respect to the manipulation of the budget figures?

Mr. REISCHAUER. I think the criticisms of the budget process with respect to complexity are true and probably unavoidable as long as we are in a difficult period when the budget situation is quite far from where we would like it to be. What we have had to do is add on to a simpler process that was adopted in 1974 a series of restraints and limitations to keep the discipline that we desire with respect deficit reduction. This has made the process tremendously complex.

But we have to remember that our Government is tremendously complex. Our accounts are tremendously complex. The Congress and how it operates and interacts with the Executive Branch is filled with complexities. It would be naive to assume that some simple process could reign in or control this very complex institutional setup

With respect to the manipulation——

Chairman HAMILTON. May I interrupt you there?

Mr. REISCHAUER. Sure.

Chairman HAMILTON. You don't make, then, any suggestion to us to simplify the process to reduce its complexity?

Mr. REISCHAUER. I think it is terribly important for the Congress to have some mechanism for looking at the budget as a whole and controlling the budget as a whole. There is then a question that lies within the purview of this committee, but one on which I will not comment, as to what extent the other actors in the budget process—the authorization committees, the appropriation committees—are regarded as separate and distinct entities. There are ways of simplifying this, as other witnesses have told you. Certainly, I wouldn't want to weigh in on that.

With respect to the various little kinds of complexities that have crept in, particularly since 1985—the scoring rules that we have and all of the points of order—these are really restraints to keep the Congress and the Executive Branch from skirting around the deficit limits that we have placed on ourselves. Should the budget get closer to balance to a point where we're not concerned or obsessively concerned about the deficit, I would think most of these aspects could be done away with.

With respect to your second question, which had to do with the manipulation of economic forecasts or spending estimates of various kinds, I don't think the Congressional Budget Office has ever been accused of that. We have generally been viewed as an outfit that calls it like we see it. One has to remember that our incentive structure is to be as accurate as possible. That is all we have going for us. We are not trying to promote a policy.

We are judged on how accurate our economic forecasts are. By and large, we have been more accurate than others, although I wouldn't want to make a great deal out of that because we haven't been as accurate as I would have hoped.

The same is true with respect to our budget numbers. I think quite correctly the Congress and the media and the academic community have relied on our estimates as an unbiased look at these numbers. We have not been right on the mark here, either. This is a very complicated area and it is not easy to make these estimates, particularly for many years out.

Chairman HAMILTON. Thank you.

Senator Stevens?

Senator STEVENS. Thank you, Mr. Chairman.

Picking up just a little bit on that, I note that you haven't made any recommendations for changes in the basic process. I have heard some criticism recently of the scoring process. I think we applaud the President for having eliminated the potential conflict between the Office of Management and Budget and the Congressional Budget Office. But you, then, were the one that scored the Social Security increase tax from 50 percent to 85 percent over the amount received in Social Security payments for those who make more than \$32,000. You scored that as a spending reduction.

Mr. REISCHAUER. No, we didn't.

Senator STEVENS. That is the way it came to us. It has been defended as a spending reduction.

Mr. REISCHAUER. You are referring to the President's plan. And how he chooses to portray his numbers is his decision. Yesterday,

we released our first-cut preliminary reestimates of the President's budget. Those revenues are in the revenue category as they have been historically in the revenue category.

Senator STEVENS. I apologize. I thought those were yours. They were given to us as being CBO scores.

Mr. REISCHAUER. The actual numbers that the Administration used—the size of those numbers came out of a volume that we published a year ago. So in a sense, the magnitude of those numbers—they could say these are CBO numbers, although they were outdated CBO numbers. But in no sense did we refer to them as reduced outlays or offsetting collections or anything like that. Those are revenues.

Senator STEVENS. I think there is a sense of frustration that develops as Members of Congress—particularly this Member at least, not having served on the Budget Committee—that the Budget Committee's rules are there to be disobeyed by those who understand them. It really came at us as a way to impose discipline on the Congress overall in terms of the budget process, but there is always a way around.

We are seeing it now in terms of the proposal to put the health care plan in the reconciliation process, to put in the scope of reconciliation things that are far beyond the original scope of the Budget Act.

Are you telling us that you think there is no reform necessary in order to make the Budget Act work as it was originally intended?

Mr. REISCHAUER. Basically, I am saying that what we have right now in the Budget Enforcement Act, on top of a bitten piece of Gramm/Rudman and the Congressional Budget Act of 1974, is a system that is operating pretty well under some very adverse sets of circumstances. I would hope that the parts of the Budget Enforcement Act that I think the majority of Members agree have worked be extended, as the President has suggested, and that they incorporate in them whatever decisions you make about increased taxes and reduced spending. In other words, the discretionary caps should be extended for 5 years, as the President suggested, and the pay-as-you-go discipline extended as well.

There are a few little aspects of the current process which I think have allowed you to avoid some painful decisions that I personally would like to see tightened up, but these are really minor kinds of technical changes and they would feed right into the Chairman's concern about an even more complex process.

Senator STEVENS. Just one last question, Mr. Chairman.

I am an appropriator. I was the Chairman of the Defense Subcommittee for 6 years and now I have been ranking member. When we get down to the budget process and how it applies to us, it is outlays, right?

Mr. REISCHAUER. Budget authority and outlays.

Senator STEVENS. Budget authority really doesn't bother appropriators that much, frankly, because it is already settled by the budget resolution.

Mr. REISCHAUER. The budget authority for the last 3 years hasn't affected you very much because the aggregate spending caps that were set in the 1990 law had a certain amount set for defense. But this year, for fiscal year 1994 that all changes and defense budget

authority can compete with non-defense budget authority. This is a decision that is made by and large within the Appropriations Committee when it settles on the 602(b) allocations. The Budget Committee makes a statement on this, but it is not a statement that the appropriators have to abide by.

Senator STEVENS. But respectfully, I am going beyond that. Even before we had that agreement, we had limits and we had budget authority. Normally, budget authority drives appropriations for a series of years and you actually have a bow wave so that the outlays are in excess of the current year's budget authority because that is dealing with future years when we are really funding ongoing projects to a great extent.

What I am saying is that when it gets to the Senate, the Senate bill is affected by outlay restrictions and points of order that don't apply in the House, they don't really apply to other subjects other than defense, and it becomes much more difficult to comprehend how to deal with the overall budget process and at the same time comply with the authorizations that we get from the authorizing committee.

I am saying that it does seem that process is tilted toward the Senate in terms of points of order. There is greater discipline in the Budget Act in the Senate than there is in the House, really. The House has a different discipline through the Rules Committee. I am not criticizing that, but when you get to the Floor in the Senate, the discipline is through points of order and the ceilings that are there and the super-majority needed to change the recommendations.

I think we ought to back up and look at this Budget Act and see if we can't get a level playing field and get those decisions made earlier in the Budget Act so that everyone knows what the parameters of the system are. Maybe I am wrong, but we seem to face those parameters in terms of defense on the Floor while other programs face those parameters in the budget process and in the authorizing committee.

Why is that?

Mr. REISCHAUER. The aspects that you're talking about are the rules of the Senate rather than the law of the land and they can be changed by the Senate, I believe, without the signature of the President.

Senator STEVENS. I think super-majority and the points of order come from the Budget Act.

Mr. REISCHAUER. But these are the procedural restraints that the Senate has put in to be its rules of action. With respect to your complaints about budget authority and outlays, I sympathize with them. I think a good case can be made that the 1990 Budget Act, in a sense, over-restrained. We put caps both on budget authority and outlays. Those caps are often not in coordination with each other. So one would bite before the other would bite. This might be more restraint than is needed.

The bread-and-butter decisions really are those that affect budget authority because budget authority then turns into outlays at some time in the future. Because there has been this disparity or lack of coordination between budget authority and outlays, the Congress has engaged in some questionable behavior such as having obliga-

tion delays and saying that this agency or that agency can't obligate funds until the last day of the fiscal year so there will be no outlay impact of them. That is certainly not the kind of behavior you want to encourage through your budget process.

Senator STEVENS. Thank you very much, Mr. Chairman.

Let me congratulate you, Mr. Reischauer. I do think in the years that we have worked with the CBO that God has given us some people who are willing to sit back and dispassionately look at some of these issues and be able to maintain a semblance of balance so that some of us don't have to get to the Floor and argue the same principle.

I thank you very much for your help.

Mr. REISCHAUER. Thank you. That is a very nice statement from you.

I would just like to say one thing on behalf of the Congress of the United States. The Congress of the United States is a highly political body, and yet it is the only legislature anywhere in the world that has created, fostered, and protected non-partisan objective sources of information. I am not just talking about CBO. I am talking about GAO, OTA, and the other support agencies.

We have a constant stream of foreign visitors asking us what we do and how we do it. They always leave with their mouths totally open and they can't believe that the Congress doesn't exert political pressure on us to skew the numbers one way or the other, even though what we do makes your job harder. Inevitably, it does.

This is something which you should be quite proud of as an institution. I think it actually has improved the credibility of the Congress with the media and with the American public that you have been perceived as willing to hear the bad news from your own employees, in a sense.

Chairman HAMILTON. Mr. Spratt?

Mr. SPRATT. Thank you, Mr. Chairman.

Dr. Reischauer, thank you for your testimony.

As I understand it from your testimony here, you don't see much to be gained by going to a biennial budgeting process. It doesn't appear, in your opinion, to necessarily lead us to any easier or simpler path toward budgeting or to producing Federal outcomes.

Mr. REISCHAUER. I think that is certainly the case now, particularly when we are in a period of budgetary disequilibrium. One could make a stronger case if we had a balanced budget or a budget that was closer to our liking. In that kind of situation, one might make a case for either forward funding more programs or funding the ongoing types of programs which aren't expected to have large changes year-to-year on a biennial basis.

But when we're in a situation where we know we have to cut back and we have no agreement on exactly what it is we're going to cut back, and we know the circumstances might be tremendously different 12 months from now than they are now, I don't think you want to lock in place decisions over—

Mr. SPRATT. In a period where we're trying to bring spending down and to reach deficit reduction targets, we probably worsen the situation by having more forward budgeting and longer term budgets. We are better off to come back to it year after year.

Mr. REISCHAUER. I think so. As I said in my statement, it would heighten the stakes, too. You would be battling over 2-year's worth of money and the stakes would be all that much higher, the ability to achieve agreement would be less, the interest groups would be saying, good Lord, it is all or nothing here. If I lose this one, I am really out of it for 2 years and I can't go back and try to get this decision rethought.

Mr. SPRATT. I don't believe in your testimony you touched on collapsing the budgeting process from two steps into one step, either eliminating the authorization step or eliminating the appropriations step, having one committee, or many subcommittees handle—

Mr. REISCHAUER. I have no opinion on that. If I did, I wouldn't think it would be appropriate for me to express it.

Mr. SPRATT. As I understand your testimony also, you're saying that you think the budget process, including Gramm/Rudman and the Budget Enforcement Act, have actually added some structure that has been positive that has improved the outcomes in the deficit and our results would have been better—perhaps not as good as we would have liked—than they would have otherwise been without these procedural methods laid in law.

Mr. REISCHAUER. I think that is absolutely true. Just one simple way of looking at this with respect to the Budget Enforcement Act is to realize that we just went through a recession that was about average in depth and much longer than usual in duration. We entered a recovery period that the most charitable thing that could be said about it is that it was anemic. It has been so weak that it has been hard to tell that we're moving forward until the last 6 months or so. And yet the Congress and the President did not enact a big stimulus program the way it had done in many years before.

The sole reason for that—and this restraint occurred as we moved up toward an election where the outcome was terribly uncertain and it was in everybody's political interest to provide fiscal stimulus and the Congress and the President showed immense restraint. I think—

Mr. SPRATT. I think you would agree that we switched from having projected numbers on target, under Gramm/Rudman, to having a finite fixed limit in dollar terms on discretionary spending under the Budget Enforcement Act.

Mr. REISCHAUER. Basically, the Budget Enforcement Act said, "You have agreed to a set of spending cuts and revenue increases. This procedure is going to make sure that you don't undo what you have already agreed to." It has been very effective at doing that. Budget processes, as I said, aren't very successful at forcing you to achieve some goal that in the abstract you have agreed to for the future, such as the deficit being X billion dollars in 1996.

Mr. SPRATT. Would you agree, however, that the one remaining enormous gap in the budget process is budgeting entitlements?

Mr. REISCHAUER. Well, we restrained the growth of entitlements through the pay-as-you-go system.

Mr. SPRATT. I understand.

Mr. REISCHAUER. The nature of entitlements, remember, is to provide the beneficiaries with some sort of assurance that they can

count on the benefits that we're talking about, whether that is for retired individuals, or for individuals who are planting their crops, or low income people, or people who might become low income. These programs are entitlements because as a matter of public policy you don't want to jerk around retirees' benefits greatly from year to year when they have no ability to respond.

Mr. SPRATT. You would agree that this is still an unaddressed, unresolved problem?

Mr. REISCHAUER. Currently, there are deficit problems concentrated. Our long-term projections show that the growth of the deficit is attributable to the growth of entitlements and specifically to the big health care programs in America.

Mr. SPRATT. In your testimony you frowned upon the idea of a simplistic cap on entitlements, but as you know, in the Budget Committee last year with the help of CBO we developed some Budget Enforcement Act changes—pretty rigorous, rather draconian—that would have required us to budget, in a sense, entitlements.

Can you comment on the feasibility of that and how we could do it without just simplistically capping the total amount of entitlement spending?

Mr. REISCHAUER. You would have to enact contingent measures for reducing various entitlements. If the situation of total entitlements were to exceed a certain level, then the following specific measures would go into effect. For example, Social Security reduced by 1 percent, Medicare reimbursements to hospitals and physicians cut in half, farm price supports reduced by 10 percent. It would have to be explicit legislative language enacted into law that would do this.

It is not very effective simply to say entitlements won't grow. We won't let them grow faster than a certain rate. And if they do, something has to be done or an across-the-board cut has to occur.

You can't administer an across-the-board cut in many entitlements. We are talking about reimbursing States for Medicaid payments that they have already paid. You have to define for each entitlement what you are going to do. That is one mechanism for doing it. But if you're going to go that far, why not just pass the legislation and say: We're cutting these entitlements in the following way?

Mr. SPRATT. Thank you very much.

Chairman HAMILTON. Just so members will know, I am taking them in the order in which they have appeared. Mr. Dreier, Mr. Allard, Senator Reid, Mr. Obey, Mr. Emerson, Senator Domenici, Senator Boren, Ms. Holmes Norton, and then Senator Cohen. I will put the 5-minute light on and ask you to respect that, if you would, please.

Mr. Dreier?

Mr. DREIER. Thank you, Mr. Chairman.

Let me thank you very much, Mr. Reischauer, for your helpful testimony and again congratulate you, as Senator Stevens did, for your fine work.

We are trying to anguish—since my friend John Spratt just raised this issue of entitlements—with this very serious problem. Most people agree that one of the things we want to do in this com-

mittee is to reduce the size of congressional staffs. There are other people who talk about some specific weapons systems that we need to address as they look at defense cuts. But we all recognize that.

As we look at this, I wondered if you have any other specific thoughts that you might like to offer us as we face the challenge of trying to deal with entitlements.

You accurately refer to this institution as a very partisan one, and yet we have tried to keep our hands off the different organizations which provide us the numbers. But it is going to be tough for us to deal with that. I wonder if you could share some of your thoughts with us.

Mr. REISCHAUER. The terms "entitlement problem" and "controlling entitlements" are used because they are relatively bloodless concepts. There is something out there that is a big monster that is growing too fast. But it is really highly misleading because most entitlement programs are growing no faster than the economy as a whole. The rampant uncontrolled growth is concentrated in Medicare and Medicaid.

If you took the Bush Administration's entitlement—

Mr. DREIER. What about farm subsidies? Is that considered a major entitlement?

Mr. REISCHAUER. I am going to mention farm subsidies in a minute. Let me keep going here.

Mr. DREIER. Okay.

Mr. REISCHAUER. The Bush Administration proposed an entitlement cap proposal that allowed entitlements to grow at a certain pace, inflation plus the growth of the population that is relevant for the entitlement plus a little fudge factor for the first 2 years. If we adopted this proposal over the next 5 years, spending on entitlements would be reduced by \$316 billion. Of that \$316 billion, the excess growth in Medicaid and Medicare was \$289 billion of the total—91 percent of the excess growth was contributed by Medicare and Medicaid.

Medicare and Medicaid—between 1993 and 1994, this year and next, we estimate will increase by \$33 billion. This is not an entitlement problem, it is a health problem.

Farm price supports are expected to be \$16 billion this year, and that is because—as many of you from farm States know—corn prices and cotton prices fell because we had a pretty good crop year and the cost of these programs is going up. Farm price supports for 1994 are expected to be in total \$10 billion. So the increase in Medicare and Medicaid over this coming year is three times larger than the entire farm program.

If you are going to cut entitlements, do I think the right thing to do is to go after Medicare and Medicaid? That isn't what I am really saying. What you should go after would be those programs which are a lower priority. But the real problem is in the health programs. It is not clear that you in the long-run can control the Federal health care programs without doing something to reform the entire medical system of this country.

We have attempted to hold down Medicare spending in the last half of the 1980s. As far as we can tell, what largely was a success on the Federal side turned up as increased costs to the private sector, which then meant that private insurance premiums went

up. So rather than paying the taxes directly for the Medicare services that were being provided, we taxed people indirectly, surreptitiously, by shifting it off to their private employment-based plans.

Mr. DREIER. Mr. Reischauer, I have several other questions on budget rules, which is something we're going to have to address here, this question of numbers, a unified budget—but out of respect to my colleagues, I would like to give back the balance of my time, since the red light is on.

[Laughter.]

Mr. DREIER. I would like to submit some questions to you in writing.

Mr. REISCHAUER. I would be glad to answer those for the record.

Chairman HAMILTON. Thank you for your restraint, Mr. Dreier. We appreciate that very much.

Mr. Allard?

Mr. ALLARD. Thank you, Mr. Chairman.

I think one of the major things we could do to make the budget process better is to make it simpler and so that it is more easily understood. What are two things that we could do that would have the greatest impact on making the process simpler and more easily understood?

Mr. REISCHAUER. As I suggested to the Chairman earlier, unfortunately, I don't think there is a way in the current condition, to make this a simple and understandable process. I would love that to be the case because I would not have to spend half of my day on the phone trying to explain arcane elements of the budget process. Quite frankly, there are things which I don't know at times that come up once every 2 or 3 years.

This is a complex process because it is trying to control deficits which are caused by a complex set of factors and the interaction of the Executive Branch, the Congress, the economy, the legal system, and all sorts of other elements.

Mr. ALLARD. You would agree that this is a congressional budget and not an Executive budget?

Mr. REISCHAUER. Well, there is a congressional budget and a congressional budget process, but it starts with a presidential submission that plays a very important role in how you shape the congressional blueprint, which is the budget resolution. Then when you move from the budget resolution to the actions of the appropriations committees and the ways and means/finance committees and the other committees that have power over direct spending, the Executive Branch comes back in, obviously, lobbying and pushing for its proposals.

So while we can talk about something as a congressional process, it is really very intertwined.

Mr. ALLARD. Obviously, there are things that they want to lobby for just like any other interested party. But your comments are that under the existing system it is difficult to get it simplified and straightforward. Maybe we need to change the existing system.

We have 50 States out there that go through a budgeting process. A lot of them have accountability provisions, like the line item veto and a balanced budget amendment. So what can the Congress do to make it more straightforward and simplified so that the average American out there can understand it?

Maybe we can look at a few States. Could you suggest some States that might have that kind of system that we could look at?

Mr. REISCHAUER. I think it is a myth that States are either simple or doing something that is quite different from what you're doing. The States, first of all, have different responsibilities. They are not responsible for the financial stability of the economy, the fiscal health of the economy. They don't have responsibilities like defense and international crises. So I think there is a difference there.

Second, most States have what looks like simple operating and capital budgets, but then when you look behind this you find that they have innumerable off-budget agencies and various gimmicks going on one way or the other. A lot of the attention is simply focused on this operating budget, but that is not the whole pie.

Mr. ALLARD. I would have to disagree with you a little bit there because I think the States are interested in their economy. It may not be as big an economy, but they are interested in their State economy. Obviously, what they do in their budget will impact that State economy. I think they do have crises they have to address within the State.

Mr. REISCHAUER. They will certainly react to the ups and downs of the economy, but they don't engage in fiscal policy. They don't try to stabilize their economies through deficit spending because, quite frankly, it wouldn't work. It would leak out to the other States.

Mr. ALLARD. My time has run out, so I will have to yield, but it seems to me that we have to look at putting forward a budgeting process that is simpler and easier to understand. If you, yourself, as an expert in this find areas that you don't understand, I think we have to make a change to make it more straightforward and simplified.

Mr. REISCHAUER. I would say that if we did make it simpler, it would be easier to evade. When the budget process has been—the second role that I described—charged with the responsibility of holding down the deficit or reducing the deficit, control is one aspect. Because this body is so complex and it has so many ways of achieving a desirable political objective, all these little bits and pieces—restraints—have to be added onto the budget process if you are saying that the budget process has as a role reducing the deficit.

We could go back to where we were before 1985 and say that this process is going to be neutral with respect to budget outcomes. Then we could have a simpler process. But I would argue that we would have a much higher deficit.

Chairman HAMILTON. Senator Reid?

Senator REID. Mr. Reischauer, one of the things you have talked about that is unique with the Congressional Budget Office is its impartiality and non-partisanship. Could you give us any ideas as to how we could do more to make it so that you could even have more impartiality? Is there a way?

Senator REID. I think we are totally impartial. My test of that is that on any average day I think I get as many angry calls from the Republicans as I do from the Democrats. I figure that if everybody is irritated at you, you are either doing nothing right or you are

doing what the charge for your office is. I think in general that is the case.

As I have said to you before, any instance which anybody here or in this Congress thinks reflects a deviation from impartiality, I want you to call me up and tell me about it. I haven't received any calls in 4 years, by the way. There are many calls where individuals are unhappy with the outcome we have come up with, but not that we have been influenced.

Senator REID. You and I have a lot of dealings because of the responsibility that I have funding your organization. It would seem to me—and I am sure there is no answer to it in a democracy—but it would be possible to be very mischievous with your organization by just cutting your budget significantly so that you couldn't adequately do your job. Isn't that right?

Mr. REISCHAUER. That's right. I would think that that would be penny-wise and pound-foolish from the simple standpoint that we provide the numbers and the analyses that allow you to deal with this problem, the deficit.

Senator REID. I am not advocating that. I am just saying that that appears to be a problem. I don't know any way to get around it in our system of Government. You have to be funded. The system is such that you go through the same process as other agencies within the Legislative Branch, and there is no way to get around it.

But to this point, that has not affected the way you do your business. Is that right?

Mr. REISCHAUER. No, it has not.

Senator REID. I have another question.

The 1990 budget summit agreement—it put into place certain things that Congress and the Executive Branch of Government were supposed to do and have done. Is that right?

Mr. REISCHAUER. That's correct.

Senator REID. But for that agreement, it is my understanding that the deficit that is now burdening this country would be significantly greater.

Mr. REISCHAUER. That's correct.

Senator REID. There is no question about that, is there?

Mr. REISCHAUER. There is absolutely no question about it. Our estimate is that for next year, 1994, if you stick with the agreement then the deficit will be \$131 billion lower than it would have been otherwise.

Senator REID. And for anyone to suggest that a bunch of people got together in 1990 and in effect "did a deal" to deceive the people of America is not true, is it?

Mr. REISCHAUER. No, not true in the slightest. The deficit has deteriorated from where we thought it was going to be very substantially, but it has deteriorated because the economy has been a lot weaker than anybody thought it would be and because a series of technical factors occurred, pushing up costs primarily in the entitlement area.

I will give you an example.

Senator REID. But that wasn't because of the budget summit.

Mr. REISCHAUER. Not at all. That would have occurred anyway. What happened with the budget summit agreement was that taxes

were raised, spending was cut in mandatory areas, and limits were placed on discretionary appropriations, limits that not only the Congress as stuck to, but has actually come in under the limits for 1993. So in a sense, you have produced more savings than were required of you by this Act.

All of those factors have led to a lower deficit than would have existed had we not had that agreement.

Senator REID. And there is no question about that?

Mr. REISCHAUER. There is no question in my mind at all.

Senator REID. Thank you, Mr. Chairman.

Chairman HAMILTON. Mr. Obey?

Mr. OBEY. Thank you, Mr. Chairman.

Bob, I want to say that I find your testimony very useful. Following up on Senator Reid's comments, I think you really point out with great accuracy on pages 5 and 6 of your statement that what happened in 1980 was not because somehow George Bush decided he was going to spend more money, or somehow the Congress decided that they were going to do something to bust the budget agreement.

What happened was that we took a guess based on somebody's computerized assumption of what was going to happen in the economy, and the economy moved. So as you point out on page 5, the combination of the deterioration of the economy and technical reestimates, especially for Medicare and Medicaid, were largely what created that increased deficit projection.

I think that illustrates a point. I am not sure yet if I have a question, but I always think as I talk. If you want to respond, be my guest.

I guess I am bugged by the fact that as I listen to this discussion I think any rational human being interested in Government would have turned off the television set and gone to another show a long time ago. I think that our problem in this town is that we all know too much. We all know too much about the technicalities and the revenue estimating capacities of a dozen agencies, so we get all balled up in a series of debates between computers.

I have often thought that maybe we could have a whole lot more political leadership if we could get rid of the technologies and go back to pencils. At least we would have less energy devoted to the arcane arguments between different agencies in this town.

As an example, I would point to the flack we have now between your agency and OMB over the question of how you define the savings that can occur from the way the Administration deals with long-term debt instruments versus short-term debt instruments. I think all that does is to divert our attention to numerical and mathematical debates, over which we have very little control, and away from the policy judgments that cause you to arrive at those numbers.

So that leads me to take issue with what you say on page 8 or 9 of your statement when you describe the world the way as it existed before the creation of the Budget Act in 1974. I supported that Act and I think there are a lot of things in it that are good and that we ought to keep. I think we ought to keep CBO, for instance. But I would submit that there is a great difference between the ability of Congress to deal in an enhanced way with information

since that time, largely because of the existence of your shop, and the ability of us to deal with reality given the fact that we have to pass the budget resolution.

Your statement indicates that before the passage of the Budget Act, Congress never examined fiscal policy alternatives and never voted on overall spending of revenue. I would suggest that we don't do that now, either. We just pretend that we do. Based on somebody's computerized assessment of what happens, we go out there and pontificate to our constituents and say that this is going to cut the deficit as a percentage of GNP by half over 5 years. We give them all kinds of certainties that really aren't certainties.

I guess I would just have to say that I think where we come down on this issue is based on different views of human nature. I think that before we had the obligation to supposedly pretend that we put all these numbers together and voted on a budget resolution, yet a far more practical world and a world that worked better. If we were to take the information that we get from you, keep that capacity, keep the Budget Committee, but really rely more on political pressure that comes at the end of the year when you can see what we have really produced as opposed to what we're promising to produce, that we would probably do a whole lot better job.

We did debate policy alternatives before the Budget Act passed. We may not have had as much information to do it as well as we can do it today, but we were forced to make trade-offs, not because some magic budget solution made us make those trade-offs, but because public pressure looked at us. If the deficit was out of line, they said we were nuts. I will submit that since 1974 deficit control hasn't gotten better, but it has gotten a whole lot worse because we have come up with more elaborate ways to game whatever system we have.

So I think the central assertion of your paper is right, that the process doesn't drive this. Political will does.

I think Senator Domenici has raised a couple of suggestions that we might look at in terms of simplifying the process by separating out time frames for the consideration of authorizations and appropriations. But I think we really need to understand that the budget resolution did not mean that Congress was in fact voting on all these items. It just meant that we were slopping in some numbers to pretend that we were voting on those items. What we have really done is simply complicate the process, make it more difficult for people to understand, and I think there was a whole lot to be said for the preexisting system when it comes to human nature.

Mr. REISCHAUER. Let me just make a few observations on your comments.

One of them is that you're absolutely right. You're not determining outlays or revenues. You can't because the Congress and the President can't control the economy and they can't control the legal system and other technical factors that push spending around. They can't determine the outcome of the Supreme Court decisions with respect to the Boren American in the State of Virginia which pushed up Medicare and Medicaid costs. There is no way that those factors can be taken into account. They have a lot to do with how these budget numbers come out.

The second observation I would make is that the budget process as it is now provides a mechanism for the expression of that political will you're talking about. It forces that political will out onto center stage a couple of times a year. When the choices before you are unpleasant, where they might involve occupational suicide, in a sense, the natural tendency is to avoid them. So I don't think it is really appropriate to compare pre-1974 with post-1980 when we had sort of a very difficult situation facing us that was going to require some very difficult political choices.

Without a process that forces you out onto center stage on these issues, you might have ducked.

Mr. OBEY. My time is up. I simply suggest that we duck now. We simply game the system so that you play games in out-years and do a dozen other things.

Mr. REISCHAUER. You're too harsh on yourselves. I think as these numbers that we have discussed before show, we respect the policy, which is after all what you control, particularly the last 3 years. The Congress probably deserves an A minus.

Chairman HAMILTON. Mr. Emerson, and then Senator Domenici.

Mr. EMERSON. Thank you, Mr. Chairman.

Dr. Reischauer, I want to explore the idea of requiring a joint budget resolution in lieu of our current concurrent resolution process. You mentioned this in your testimony, but I would like you to comment further.

One potential problem that you cited was the possibility of conflict and stalemate earlier in the process. Thus you said it would make it even more difficult to reach agreement on a congressional budget. It seems to me that if we are going to have conflict and stalemate, we may as well get it early on and have more time to resolve it.

I would like you to comment on that.

Mr. REISCHAUER. I was really trying to point out in my testimony that there are arguments on both sides. It is not clear-cut that a joint resolution would cause the President and the Congress to come together, agree on difficult discussion, and enjoy harmony thereafter. Sometimes that might be the case and sometimes it might not be the case. It would involve the President at an earlier stage. It would preclude the possibility that the President came and plunked his budget proposal out on the stump in the middle of the night and then retreated back into the White House and told you all to grapple with the tough issue and claim that his budget document balanced the budget.

I think there are a lot of arguments in favor of it because it forces a higher degree of responsibility on the Executive Branch. We have had a system now in place which allows the Executive to present the budget and then retreat and leave Congress with the very difficult problem of grappling with the hard decisions. This would certainly overcome that in part.

At the same time, you have to remember that this is a subtle shift of power away from the Legislative Branch and towards the Executive Branch. I am in no position to say whether that would be good or bad, but I know many Members of the Congress have strong feelings on that.

Mr. EMERSON. But you would suggest that as we move from hearings to deliberations in this committee that that is a point worthy of deliberation?

Mr. REISCHAUER. Certainly.

Senator DOMENICI. Would the gentleman yield?

Mr. EMERSON. I would be glad to yield to the Senator.

Senator DOMENICI. Let me suggest—and perhaps Dr. Reischauer has not thought of this—there is a method of balancing that if you want to go with a legislative budget resolution.

I introduced a measure to overhaul all of this which had the Congress and the President participating and the President signing the budget resolution. But what you have to do is that you have to state what the effect is if you don't agree because the President could say: I don't want the congressional budget resolution. That law says that if you don't agree, you budget exactly on the previous year's numbers. So essentially it is a continuing resolution at last year's levels in all respects until such time as you get that resolution. That gives a little bit of pressure to get something.

Mr. REISCHAUER. Let me suggest that there is another dimension to this and that is that we might be making more out of this than should be because if you go back through the last few years, remember the budget resolution sort of sets out total revenues, total outlays, total budget authority. It has the divisions by function, but in fact the appropriations committees don't have to follow those functional allocations. It is left within the Budget Committee.

If you go back and you look, you will find that in fact there isn't a huge disagreement between the Executive and Legislative Branches over the level that revenues are going to be at or the amount of total outlays that are going to be particularly in the discretionary account. In fact, the President and the Congress are very close. Often, the Congress is below where the President is.

In the mandatory spending area, there is often a big discrepancy, but that discrepancy, more often than not, has not been related to policy but it has been related to what I would charitably call "estimating errors" on the part of the Executive Branch.

So what is in this budget resolution maybe wouldn't be that contentious. What is contentious is really the pieces, how much for defense, how much for cities. That really wouldn't be the subject of this.

I would suggest to you here that moving to a joint resolution—or if we had had a joint resolution in the past, it might not have made that much of a difference. We would still be in the same pickle we're in right now.

Mr. EMERSON. I trust that you will be further available to us as we move forward. I would really like to get into the question of fairness, but I see that my time is limited.

You emphasized that the budget process has to be fair, and I agree with that. I would like to explore what you consider to be the elements of fairness.

Thank you.

Chairman HAMILTON. Senator Domenici?

Senator DOMENICI. Thank you, Mr. Chairman.

Thank you, Bob, for coming before us today and for your usual candor.

Let me state to the members who are here that it has been my impression—and I think I have a pretty good feel for this budget process. I have kind of grown old with it. It has grown old, too.

But essentially, on the one hand there is a cry that the budget resolution is not effective. On the other hand, there is a great reluctance to give the budget resolution or the Budget Committee any authority. When we drafted the first Budget Impoundment Act that created a budget resolution as an instrument of policy and committees to draft it and enforce it, nobody was quite sure whether they wanted to take away any of the authority at all of the appropriations committees.

So if you read it and look at it carefully, it is a very interesting document that says that the Budget Committee shall set how much we will spend for domestic programs, but as soon as we try to say so much of it for defense, or so much of it for function number such-and-such; it is: We didn't ask you to do that.

For example, during the first 2 years of the Reagan Administration we argued about numbers, Representative Obey, on how much we spend on defense. Remember that? There were big arguments. The problem is that we had those debates. Then in the first 2 years the Congress took \$44 billion of the defense number—we had agreed on \$296 billion for defense. They took \$44 billion in budget authority out of that as it went its way through the appropriations process and spent it wherever they wanted on domestic programs.

Let me tell you that interestingly enough, maybe we want that to be the rule. But let me tell you that it really matters that we determine the outlays not just the budget authority. It took us 5, 6, 7, or 8 years to get that.

Let me tell you why it matters. If you take \$44 billion away from defense and you don't have an outlay restraint, that \$44 billion can be spread across low spend-out programs so that you put it in and not very much spends out, or you can do the reverse. You can put it in where it spends out dramatically.

Congress did an interesting thing with that money. You know there is a cry that we cut housing. Congress intentionally did that. President Reagan had nothing to do with it. They found that once they took more money from defense and could spend it, that if they changed the housing programs so that they were quick spend-out programs they could spread that budget authority all over that budget because they didn't need very much for housing. That is why we went to vouchers and other things that spend out quickly because they take the excess budget authority and spend it on others because we didn't care what the outlay result was.

So we kept within President Reagan's and the Budget Committee's budget authority, but we spend considerably less on defense and lo and behold, if you would look at the second or third year out we spent a huge amount more on domestic programs in outlays because we jiggered the budget authority around to see that we did that.

This is budgetese, and who wants to listen to this? But nonetheless, we have to talk about these things.

Mr. OBEY. Would you yield on that?

Senator DOMENICI. I would be pleased to, but I only wanted to make the point that we need more authority to get things done, not less, as I see it. I very much want to ask him a little bit about that.

Mr. OBEY. I just want to say that I agree with everything you have said. You have described what happened exactly. I think that has made my case because what happened is that we could follow the pretense of meeting the numbers, but in the process we really did not have the kind of fiscal control that people thought we had in some of those areas.

I am only saying that we ought not kid ourselves that this system gives us any better fiscal control than the last system if you don't have the will that has to go along with it.

Senator DOMENICI. But it does give us some very significant new authorities because what we have now done is to establish a convention for determining how many outlays flow from budget authority. So we put an outlay cap on, too. What I just described could not happen now. It would be much different. The playing of the game would be different.

I am really suggesting that the agreement of 3 years ago, the 5-year summit agreement of Andrews—it did a few things by law that are interesting that we ought to wonder whether we want to do in recommending change. It said, have your debate on defense and put a number in for defense. If you don't spend all of that on defense, you put it back in the Treasury. At least if we did some of those kinds of major categories that we were debating for real on the Floor in a budget resolution, it seems we would have more truth and honesty in the result.

If in fact you are going to determine policy this year for President Clinton, and you agree with his policy, it is clearly doubtful whether the budget resolutions, with their current authority or lack of authority—it is very difficult to say with certainty that by adopting a budget resolution you are carrying out his policy, is it not?

Mr. REISCHAUER. That is certainly true because a big chunk of his policy occurs in discretionary spending. Discretionary spending, after all, is the purview of the Appropriations Committee. He has recommended a number of pluses in the discretionary area and a number minuses in the discretionary spending area. What the budget resolution and what the caps control would really be the net number, nothing else.

Senator DOMENICI. The net aggregate.

Mr. REISCHAUER. Correct.

So within the appropriations committees, they could decide to have more pluses and balance by more minuses, or they could decide to have fewer pluses and balance by fewer minuses. Where that comes out is determined by later decisions in the legislative process.

Senator DOMENICI. One last question. Again, I would hope those members who are interested in how this process works and doesn't work would listen to this one for an example of how things go awry.

We have a reconciliation process that is general and not specific. So in the past, it has said to a finance committee or a ways and means committee, or a ways and means committee and an energy

committee combined in the House: Raise revenue by \$50 billion and adjust entitlements within your jurisdiction by \$20 billion.

Until recently, those were 1-year mandates. So what the reconciliation bill could do—and it did it numerous times—it would comply with the reconciliation instruction for the year mandated and then write permanent law in the reconciliation instruction spending more money in the out-years than was expected. That is how they would design the program. Medicaid is a very good example of that. Reconciled, saved money in the first year, in the bill itself added programs in the out-years so it went up.

Second, you can do the same with taxes. You can raise taxes in the first year because you mandate it and then in the out-years you can spend it. I think this is true of the early years of the budget process.

I would like to ask that you submit for the record a detailed analysis of the reconciliation process and its evolution from the standpoint of what its multi-year control mechanism is now. Second, since we are now being told that we might even get the health care plan in reconciliation—everybody ought to know what that is going to say. That will be three sentences. That is going to say that committees of jurisdiction, if they pass a health care plan under reconciliation, the chairmen of the committees can just change the budget numbers to accommodate it and you will have reconciliation for the whole health care plan.

My second request is, could you tell us what the status of the law is with reference to putting into reconciliation irrelevant measures—measures that do not pertain to fiscal policy—and what controls we have tried to place on putting in pure authorization bills in reconciliation? Could you give that to us in writing?

Mr. REISCHAUER. Certainly.

The reconciliation instructions can be multi-year. You have chosen not to do that sometimes and other times you have. So there is nothing within the Budget Act that precludes a multi-year reconciliation.

Second, it is important to remember that in addition to reconciliation—and reconciliation instructions are designed to change direct spending or revenues—you have the pay-as-you-go score card restraints. If the President's proposal to extend those pay-as-you-go restraints for 10 more years is enacted, that serves as a backstop to the type of shenanigans that Senator Domenici described which occurred during the early years of the budget process.

But once again, getting back to the Chairman's original statement, this is one of those elements that has added to the complexity of the existing process. When we didn't have that complexity, we had the games being played.

Senator DOMENICI. Mr. Chairman, might I just say that those caps and those spending pay-as-you-gos were not part of the Budget Act. Nobody had such authority under it and we were expected to control expenditures. They are added on, truncated on it by the 5-year agreement.

Mr. REISCHAUER. That's correct.

Senator DOMENICI. So they are law and not budget resolutions. They are written into law.

Mr. REISCHAUER. They are written into law. They are not written into the basic law, which is the Budget Act of 1974. And they expire in 1995 unless they are extended.

Chairman HAMILTON. Senator Boren?

Chairman BOREN. Dr. Reischauer, what is historically the earliest period of time in which the reconciliation bill has been acted upon by both Houses since we have been following this process?

Mr. REISCHAUER. It was in 1981. I believe it was August 13th, which is when the Reagan Omnibus Bill went through the Congress.

Chairman BOREN. I thought there was 1 year in which both Houses had Floor action in June and committees in May. Do you recall that?

Mr. REISCHAUER. We will provide you for the record when the various reconciliation bills have passed. It is conceivable that one of the less controversial ones or a small one might have gone through earlier.

Chairman BOREN. The budget resolution can fix a date for the reconciliation bill, can it not? Can it set a target date?

Mr. REISCHAUER. There are many dates that are established, and few are adhered to, as you know. You are right that usually the instructions include a date at which the various committees are supposed to report back to the Budget Committee with their recommendations. Your question is, when does it go to the Floor after it has been pieced together in a single legislative initiative?

Chairman BOREN. Right.

So when we act on the budget resolution this time, we could try to push that process. We would be free to set a time deadline, at least one we would try to push on the committees, as to when the committees would report back to the full Congress with their cuts.

Mr. REISCHAUER. I would expect that to be a part of this.

Chairman BOREN. What mechanism do we have now? Is it simply once a year or is it semiannual for updating the progress of deficit reduction and where we are exactly? I know we have a snapshot, I recall, once a year that sticks in my mind. But is it more often than that?

Mr. REISCHAUER. There are two different ways of answering that question. One is that the Congressional Budget Office twice a year—once in January and once in August—updates its economic forecast and updates all of its budget numbers to reflect actions and laws that have been taken to that point. We project them out 5 years so that gives you a feel for where the deficit is and where it is going twice a year.

The Administration does the same thing. It has two updates.

The other way of looking at that question is, how often do you, as a Congress, speak on this? The answer is once a year in the budget resolution.

Chairman BOREN. What concerns me is—and I think this point has been made to us by several witnesses—that this year, as we go through this budget process—and especially if we are successful in passing a package that will result in deficit reduction—that making sure that we're accurate that we stay on our target is extremely important. If we say that we're going to reduce the budget

X billions of dollars over the next 5 years and this year we will have a smaller budget deficit next year than we have this year.

If the deficit grows or doesn't go down nearly as much as we promised, the public will be much less willing to make the sacrifices the next time around.

Mr. REISCHAUER. This is a terrible dilemma that you're in because the public is holding you accountable for events over which you have no control. The fact that the Congressional Budget Office publishes tables that show the policy actions of the Congress has caused a reduction in the deficit of X amount, but that has been offset by worse economic conditions don't phase the public at all. They judge you on the bottom line, hold you responsible for something which you in fact control probably half of.

Chairman BOREN. Is there any mechanism we could use that would keep us—do you think it would be advisable for us to have reports more often so that we could really track our progress as to whether or not we are staying on our deficit reduction target? It might mean that there would have to be some “if economic conditions change”—if our forecast said to change, it might mean that we might have to take some remedial action ourselves to stay on target in terms of trying to meet the deficit reduction.

Mr. REISCHAUER. The problem here is that it takes you the better part of 12 months to make one set of difficult decisions and it would be terribly complex for us or OMB to do this every 3 months. It takes a tremendous amount of manpower to do these kinds of estimates. I am not sure that more frequent updates would improve the final outcome.

You might look at—if you were to enter into an agreement like you did in 1990, which was 5-year deficit reduction agreement, that under the assumptions of the time was really going to make the deficit, for all practical purposes, go away. It would have been down below \$50 billion. It would have been off the front pages of the newspaper. It wouldn't have been brought up by your constituents at town meetings by 1995. We would have been on a downward trajectory right now and your attention would be focused on other things.

As I said, the economy turned sour, technical factors went the other way, but the Budget Enforcement Act required you to do no more than what was agreed to in 1990. You might want in the next round of agreements some look-back that would say: If we aren't on the track we were on, we have to address these issues before the 5th year. We have to come up with an interim adjustment.

Chairman BOREN. Thank you very much.

Chairman HAMILTON. Senator Sasser has some questions that I presume you will receive and respond to in writing.

Mr. REISCHAUER. Fine.

Chairman HAMILTON. He had to leave for another hearing.

Ms. Holmes Norton?

Ms. NORTON. Thank you, Mr. Chairman.

I have found your testimony particularly helpful, particularly because it tries not to do what is I'm sure the temptation to make one's one mission seem the center of the universe, but rather to put budget reform in some context. Budget process reform tends to be bigger than life in this body, I'm afraid.

As we move toward our mission, which is to find reforms that could improve how we do our business, budget reform always steps up to the front of the line.

It seems to me that your testimony is far more measured than that. You seem to imply that one could over-rely on budget reform to get other kinds of reforms we are after and that an evaluation of the budget process may be distorted by the structural deficit that looks us in the face every day that we come to this body.

I was interested to see you indicate that the role of budgeting has been marginal adjusting as opposed to the more central role that some in these two bodies have tended to give it.

As a result, of course, of focusing so distinctly on budget, you get outcome-oriented devices like a balanced budget amendment, caps, line item vetoes, and you offer a balanced analysis of the pros and cons of each of these devices.

Your testimony implies that changing the law is no substitute where there is a policy defect. We have finally come—maybe 25 years after it got any attention—to the point where we are going to change the law when it comes to health care. We decided to do that, it appears, only because it has busted the budget. We shouldn't fool ourselves. The middle class didn't like what it was doing to their incomes and to the budget, so we are going to change it.

I would hope that we don't get to that point with respect to other policy initiatives that need to be taken. That is to say, they get into a crisis and then finally we get the policy changed. We need to stop focusing on the budgetary outcomes or devices that might get us to change.

It would be helpful to me to have your views—I am looking at page 12 of your testimony when you talk about caps that are often used to trigger future savings. You say: But such savings cannot be realized without taking policy actions to reduce mandatory spending, and these actions involve changing the laws that govern these programs.

It would be helpful to hear your view on laws involving other programs that might better stimulate change than focusing so centrally on the budget process.

Mr. REISCHAUER. I think you can make a case for restructuring the operations and workings of the Congress, which is what you are all about. But that shouldn't be driven by budget policy. It should be driven by an effort to streamline this institution, to make it more effective, to make the outcomes of your deliberation more to the liking of the membership.

If you do that, I think we will have a more effectively working budget process. It will be a byproduct of that. You shouldn't go about the reforms because the budget is consuming your activity and if you could do something about the way the budget operated within the Congress it would make the rest of congressional life more efficient. I think that would be a mistake.

With respect to comments you made about outcomes, here I really think my statement is fairly clear. I am saying that these are really procedural promises. There is no beef. They are one step away from the beef. They are really saying, "We're going to do something later on. We aren't telling you what it is and don't

blame us for the consequences of it." That really provides very little assurance that whatever it is will be done later on at all, and that it really is not a substitute for taking the real actions.

If you can take the real actions, then you don't need to pass the procedural promise.

Ms. NORTON. Thank you, Mr. Chairman.

Chairman HAMILTON. Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

Dr. Reischauer, I was curious about a couple of things you said this morning. I just came in during the middle of your testimony. You said something to the effect that by simplifying the process you might only lead to greater evasion.

I took it from that that the corollary might be that if you make it more complicated you will have more compliance. I hope you weren't saying that. We found just the opposite to be the case in the field of taxation. When you have a more complicated tax system with higher rates and more deductions, exemptions, and credits, you found a good deal of time being spent trying to evade the paying of taxes by taking advantage of the complexities as opposed to when you tried to simplify it by having fewer rates and less deductions when we found we had greater compliance.

Mr. REISCHAUER. I think the analogy there is incorrect. The budget process is really the analog of the compliance and enforcement part of IRS. By devoting more resources to it, by making it more complex in fact compliance and revenues go up.

The complexity of the underlying tax code, I agree, leads to evasion, leads to an ability to shift resources around. But in the analogy I was giving, that would be equivalent to the economic, political, social, institutional framework that brings forth the pressures that lead to a big deficit.

Senator COHEN. We will debate that in a little bit.

Also, in your written testimony—and I take it from your prepared statement here today—you talk about the difficulty in drawing a capital budget versus a consumption budget.

We had this evidenced by Leon Panetta's testimony when he first came for his confirmation hearings as well as Mr. Ross Perot, who testified earlier this week. I asked a series of questions.

Do you feel, for example, spending for education is investment or consumption?

Mr. Panetta would say that is investment. Mr. Perot indicated that was consumption.

Child immunization, the WIC program, roads—Mr. Panetta indicated in each of those categories that those would all be investments, something that would benefit us in the future. In each of those cases, Mr. Perot said that was spending.

Then we come to the issue of defense. Most people would assume that if you spend for defense that is consumption and not investment. Yet some of the testimony we have had—that the success of Boeing and our major airline manufacturing industry has had its success almost directly dependent upon the investment made to the Department of Defense over the years in perfecting the technology and allowing that to filter into the private sector.

But it does point out the difficulty in anybody talking about investment versus spending. I think we have to disabuse ourselves

that we can somehow set up a separate capital budget and a separate budget for consumptive spending, as such, and hold to any kind of degree of integrity in that process.

Would you agree with that?

Mr. REISCHAUER. I agree with you completely. It is a continuum from some activities in Government that might be pure private sector type investment all the way to pure consumption type activities. It is not clear where one would draw the line at all.

Senator COHEN. I was also curious about the reaction when Mr. Perot cited the State of the Union message. When President Clinton said that he was going to rely upon the CBO figures in terms of putting together his budget, laughter broke out. And it broke out principally on the side of the Republicans. There was no doubt about that.

Frankly, I was interested in hearing you today. I have heard Senator Domenici praise your efforts in the past, as he did here today. I have had no dealings with you on the various committees on which I serve.

I would agree with what President Clinton said. The numbers that have been historically put forward by CBO have been much more accurate or in line with the reality than those put forth by OMB. That is because the numbers that have gone through the Executive Branch have in fact been manipulated to achieve a political objective. Again, one only has to go back and read David Stockman's book in terms of the triumph of politics to realize that.

But I was curious in terms of when you said that you have never received a single complaint from any Member of Congress about the integrity of your operation, as such. You may have complaints about whether something ought to be scored one way or the other, and yet how do we reconcile that with the reaction the President got during his State of the Union address?

There apparently is a perception—I suspect it may break down more not only on party lines but on House versus Senate lines—that the CBO is—

Mr. REISCHAUER. I think there might be divisions within parties, too, as you suggest.

Senator COHEN. The perception is, however, that CBO somehow operates only as the arm of the Democratic party in the Congress. I don't believe that to be the case.

Mr. REISCHAUER. I have the scar tissue to prove that it is not the case.

Senator COHEN. Anyway, I am glad that we can resolve that because I think there is a tendency on the part of Republicans, at least, to launch those kinds of things against you.

Mr. REISCHAUER. There has been criticism of my office by certain Members of the Congress that we refuse to engage in what is called dynamic revenue estimating to include the presumed impact of the policy change in revenues. I try to point out to people that we don't, the Joint Committee on Taxation doesn't, and the Treasury Department doesn't, and it didn't under Ronald Reagan and it didn't under George Bush. This is not a partisan issue. It is an issue of what we think is the most responsible way to produce these numbers.

Senator COHEN. I would like to make one final comment.

You indicated in response to Ms. Norton that what we do with the budget process really only has an impact on the margins. The laws have to be changed rather than the budget process itself. I am not sure that you really meant that you would give Congress an A minus for its budget process entirely.

Mr. REISCHAUER. For adhering to the limits that you placed on yourself in 1990.

Senator COHEN. You confine it to 1990?

Mr. REISCHAUER. From 1990 on.

Senator COHEN. The implication is that we have very little control through the budget process in terms of what happens in the economy. I want to clarify that for myself.

What we do, in fact, has quite a bit of impact upon the state of the economy. To give you an example as recently as yesterday, we decided to declare an emergency in the payment of unemployment insurance and not pay for it. We have added that to the deficit. That may have a long-term effect in terms of long-term interest rates if Wall Street and others see that we're not serious about ever coming to grips with the deficit problem. The rates are going to continue to remain higher than they ordinarily would.

If they remain high, that means you may have less investment in the private sector, which means you may have fewer jobs, which means you may have less revenue, which means you will have, in fact, higher budget deficits.

So what we do within the budget process does have an impact upon the economy. It is not just monetary policy.

Mr. REISCHAUER. I would agree with you completely that certainly the policies that you adopt in the aggregate have fiscal policy consequences, and that affects the economy in very substantial ways. But what I am suggesting is that if you adopt a particular policy now, that will affect our economy, but so will what is going on in Europe and Japan, so will the price of oil. All of these forces also affect the economy and your actions might be quite responsible with respect to the economy and other things might derail the economy. You are then blamed for the consequences of the whole package.

Ms. NORTON [assuming Chair]. The chairmen have had to depart and have asked me, Mr. Reischauer, to thank you for your very excellent and helpful testimony. Your office enjoys great respect both inside and outside the Congress. Your testimony here is morning gives every indication why.

You have been very helpful to us and we appreciate it.

Mr. REISCHAUER. Thank you.

[Whereupon, at 1:55 p.m., the committee was adjourned.]

APPENDIX

**CBO
TESTIMONY**

**Statement of
Robert D. Reischauer
Director
Congressional Budget Office**

**before the
Joint Committee on
the Organization of Congress
Congress of the United States**

March 4, 1993

NOTICE

**This statement is not available for
public release until it is delivered at
10:00 a.m. (EST), Thursday,
March 4, 1993.**



**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

Chairmen Boren and Hamilton, Vice-Chairmen Domenici and Dreier, and Members of the Committee, thank you for inviting me to testify today on the budget process.

In my testimony I will cover three topics:

- o The two different historical roles of the budget process;
- o Implications of recent experience for what the budget process can and cannot accomplish; and
- o Some of the proposed structural changes to the budget process that have recently received the greatest legislative attention, and the arguments that have been advanced both for and against each proposal.

THE ROLE OF THE BUDGET PROCESS

The federal budget process has historically been called on to play two roles. The first is to prescribe the general rules and procedures governing the presentation of the budget by the President and deliberation on the budget

in the Congress. With the massive increase in the budget deficit over the past decade, however, a second purpose has arisen. Attempts have been made to use the budget process to force reductions in the deficit, or to enforce compliance with deficit reduction agreements that have already been made.

General Rules Governing the Budget Process

The general rules governing the budget process are primarily contained in two laws. The first is the Budget and Accounting Act of 1921. This law created the Bureau of the Budget (now the Office of Management and Budget) and the General Accounting Office. In addition, the Budget and Accounting Act required the President to present a set of budget recommendations annually to the Congress, and has been amended several times since to prescribe new requirements for Presidential budget submissions.

The Congressional budget process was codified with the passage of the Congressional Budget and Impoundment Control Act of 1974. This law was passed both in response to the frustration generated by the fragmented nature of the Congressional budget process and to provide the Congress with greater ability to exercise its budgetary responsibilities. The act strengthened the Congressional role in the budget process by beefing up and centralizing its budgetary capacity.

The House and Senate Budget Committees were created to coordinate Congressional action on the budget, and the Congressional Budget Office (CBO) was established as a source of nonpartisan analysis and information on the budget and the economy. The concurrent budget resolution was created to coordinate various portions of the budget. The budget resolution gave the Congress the ability to consider the broad outlines of the budget as a whole at a relatively early stage in the process. The resolution sets out parameters for future Congressional action on the budget--the passage of bills governing taxing and spending.

Using the Budget Process Specifically to Reduce the Deficit

The advent of large budget deficits in the early 1980s ushered in a new era for the budget process. In this era, the primary focus of the process has not been on general procedures, but on establishing rules specifically focused on deficit reduction. This role is codified in two major laws--the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings) and the Budget Enforcement Act of 1990 (BEA).

Gramm-Rudman-Hollings had a simple goal--to reduce the size of the deficit to specified levels each year until expenditures were in balance with

revenues. If annual deficit targets were not met by enacting the appropriate amount of spending restraint or tax increases, automatic across-the-board spending cuts (or sequestration) took effect. According to the targets specified in the legislation, the budget was to be balanced by fiscal year 1991. The first Gramm-Rudman-Hollings law was replaced in September of 1987 by a successor, which delayed the target for budgetary balance to fiscal year 1993.

The deficit, of course, has not come down as promised by the Gramm-Rudman-Hollings legislation. In an effort to live within the short-term budget constraints, the President and the Congress evaded the targets by relying on overly optimistic economic assumptions and outright budget gimmickry. This smoke-and-mirrors strategy enabled policymakers to appear to live within the annual constraints, while doing little to reduce the actual deficit. For example, the original deficit target for 1990, the last year the Gramm-Rudman-Hollings procedures were fully in place, was \$36 billion. The revised 1990 target, established in 1987, was \$100 billion. The actual deficit for that year was \$220 billion. The estimate of the deficit for 1993 (the year in which the revised targets were to require a balanced budget) in CBO's January report to the Congress is \$310 billion.

The BEA created a quite different kind of process than Gramm-Rudman-Hollings. It was enacted to enforce compliance with the deficit-reducing actions agreed to in the 1990 budget summit agreement. Its purpose was not to force the enactment of further reductions. Moreover, it focuses not on achieving some prescribed deficit level, but on controlling spending and preventing policy actions that would cause the deficit to increase. Two separate procedures were set up to achieve these ends. The first is the discretionary spending caps, which place limits on the level of budget authority and outlays through 1995. The second is the pay-as-you-go (PAYGO) process, which requires that Congressional actions affecting mandatory spending or revenues be deficit neutral.

The Congress and the President have largely lived within the BEA's constraints. Although the deficit outlook has deteriorated since the 1990 budget agreement, this turn of events is not the result of any failure of the BEA. The deterioration of the economy and technical reestimates of revenues and spending, especially for Medicare and Medicaid, are largely responsible for the increase in the projected deficit since 1990. That virtually none of the change in the deficit outlook results from policy actions is a testimonial to the success of the BEA in enforcing the budget agreement (see Table 1). The BEA did not, however, include any procedure to reconsider the rules were the deficit outlook to deteriorate.

TABLE 1. Changes in CBO Deficit Projections Since the 1990 Budget Summit
(By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
December 1990 Projection	253	262	170	56	29
Policy Changes					
Revenues	-1	3	5	a	a
Outlays					
Desert Storm spending ^b	23	13	10	2	1
Desert Storm contributions	-43	-5	0	0	0
Other	<u>1</u>	<u>7</u>	<u>4</u>	<u>2</u>	<u>1</u>
Subtotal	-19	15	14	4	2
Deficit	-19	13	9	4	2
Economic Changes					
Revenues	-31	-58	-78	-90	-102
Outlays	1	-9	-31	-38	-34
Deficit	32	49	47	52	68
Technical Changes					
Revenues	-24	-38	-42	-38	-36
Outlays					
Deposit insurance ^c	-28	-108	-28	51	37
Medicaid and Medicare	7	19	32	45	60
Other major benefit programs	8	18	24	24	25
Debt service	-1	-2	a	8	18
Other	<u>-7</u>	<u>1</u>	<u>13</u>	<u>13</u>	<u>8</u>
Subtotal	-21	-71	42	140	148
Deficit	3	-34	84	179	185
Total	16	28	140	235	255
Current Projection	270	290	310	291	284

SOURCE: Congressional Budget Office.

NOTE: The December 1990 projections appeared in Congressional Budget Office, "The 1990 Budget Agreement: An Interim Assessment," CBO Paper (December 1990).

a. Less than \$500 million.

b. Estimated; Desert Storm outlays are not segregated from other defense outlays.

c. Excludes changes in estimated interest paid by two deposit insurance agencies (the Resolution Trust Corporation and the Bank Insurance Fund) to the Treasury. These payments are intrabudgetary and do not affect the deficit.

WHAT ARE THE LESSONS TO BE LEARNED?

The Congress has now had almost 20 years of experience with its own budget process. In addition, the past seven years have provided an experiment in the efficacy of two very different approaches to using the budget process to reduce the deficit. Some lessons emerge from this experience that might be useful to the Committee as you consider possible reforms to the budget process.

- o First, the structure of the ongoing budget process and the information provided has important implications for the ability of the Congress to develop a budget plan and for the quality of budget decisions.
- o Second, budget procedures are much better at enforcing compliance with previous decisions (in this case a deficit reduction agreement) than at simultaneously specifying both a predetermined outcome and its enforcement. This point is particularly crucial when budget targets have to be revised because of uncontrollable events.

- o Third, the viability of the budget process depends largely on the extent to which it is perceived as fair, as well as on the flexibility that it affords participants to respond to changing conditions.

The Importance of the Budget Process in Providing Information

Before 1974, the Congressional budget process was fundamentally different from what it is today. Early each year, the President proposed a budget. This comprehensive plan was then parceled out among the various committees of the Congress, each of which dealt with the President's proposals and Congressional initiatives falling within its jurisdiction. The Congressional "budget" was the cumulative (and somewhat accidental) result of legislation affecting annual discretionary appropriations, mandatory spending programs, and revenues.

The Congress, therefore, never examined fiscal policy alternatives or voted on overall spending or revenues. This piecemeal approach to the budget constrained the Congress's ability to make comprehensive policy or play a clear role in the fiscal policy debate. Since budget legislation was routinely enacted throughout the legislative session, the Congress was rarely forced to make trade-offs among conflicting priorities. Lacking a systematic

and encompassing procedure for dealing with the budget, the Congress felt it was at a distinct disadvantage when dealing with the executive branch.

The Budget Act of 1974, with its focus on the budget resolution and the creation of an infrastructure of budget information for the Congress, fundamentally changed the way Congressional budgeting was done. To its proponents, the act gave substance to the constitutional responsibilities of the Congress.

The information that is provided in the process today includes not only what is necessary to formulate the Congressional budget, but also information that lets the Congress know whether it is complying with its overall budget plan. Two types of information are provided that can be important to the quality of Congressional decisions on the budget. First, the ability of the Congress to make sound fiscal policy depends on the availability of information about the interaction of budget policy actions and the economy. Second, budgetary accounting--which governs how particular policies are "scored"--can affect budget decisions by affecting the relative costs of programs in the budget. These budgetary accounting issues were central in adopting a reform of the accounting for federal credit programs in 1990.

Although there are other ways of organizing the process and providing information to decisionmakers, these two fundamental purposes of the Budget Act remain important today. As your Committee deliberates on the possibility of making changes in the process, keep in mind the need for the Congress to retain some ability to focus comprehensively on the budget, as well as a capacity for the Congress to gain access to budget information.

For example, one hears complaints that the Congress is required to act too many separate times on the same spending--when the budget resolution is adopted, when programs are authorized, and finally when funds are appropriated. The requirement for a budget resolution obviously contributes to this situation. But if the Congress is to maintain an equal role in the budget process, it must maintain its ability to deal with the whole budget. Further, the capacity of the Congress to deliberate on the budget largely depends on the information provided to Members. The Congress should have a source of information that is independent from the executive branch, and the quality of that information is important. Hence, even though the Budget Act added elements that complicated the process, it also provided the Congress with a capacity that previously had not existed.

Budget Processes Work Best at Enforcing Compliance, Rather Than Attempting to Force Specific Outcomes

A second important lesson of the past 20 years (and particularly of the past seven) is that the budget process is not very good at establishing changes designed to force some undefined policy actions to be adopted in the future. If the policy actions precede the changes in process, however, the process can enforce compliance with these actions. The experience with deficit-focused reforms illustrates that point. Although Gramm-Rudman-Hollings failed to force actions to meet predetermined deficit targets, the BEA has largely been successful in enforcing the 1990 budget agreement.

The experience under Gramm-Rudman-Hollings demonstrated that if the President and the Congress are unwilling to agree on a painful deficit reduction package, any budget procedure is unlikely to force them to agree. Instead, budgetary legerdemain will probably be used to meet the letter of the law, and the hard decisions that would achieve real, permanent deficit reduction will be avoided.

Conversely, if the President and the Congress agree on and enact a painful package of spending cuts and tax increases to reduce the deficit, budget procedures that highlight and penalize deviations from that agreement can be highly effective. Such procedures succeed in part because the

participants in the agreement have an incentive to stick to the original terms; it is also far easier to block legislation than to enact it. The parliamentary impediments that make enacting deficit reduction, or any controversial legislation, so difficult also work against reversing deficit reduction legislation once it is in place. In short, procedures are no substitute for substantive policy agreement and action.

That maxim also applies to two types of reforms that have been mentioned prominently in recent years. First, a constitutional amendment requiring a balanced budget would establish the same sort of fixed deficit targets that caused such difficulties in the past; such an amendment would probably not reduce the deficit, but would rather engender the same sort of evasions that occurred under Gramm-Rudman-Hollings. Second, caps on mandatory spending have been proposed by some as a solution to the growth of mandatory spending. Such caps attempt to trigger future savings in mandatory spending programs by setting a cap that limits the growth in each program to a combination of the inflation rate and the growth in the target population. But such savings cannot be realized without taking policy actions to reduce mandatory spending, and these actions involve changing the laws that govern these programs.

The Budget Process Must Be Fair and Flexible

For any budget process to endure, participants must believe that it is fair and flexible. That is, they must believe it treats participants equitably and that rules can be changed when circumstances dictate.

Fairness. Although the rule of fairness is a general one, the differences between Gramm-Rudman-Hollings and the BEA nicely illustrate it. One of the problems with Gramm-Rudman-Hollings was that the fixed deficit targets made it virtually impossible to identify any budget participants who were responsible if the deficit was estimated to exceed the target. Any excess was the result of numerous factors, including ones not directly under the control of any budget participant, such as slower-than-expected economic growth.

The inability to assign responsibility for the excess made it more difficult to reach agreement on how to eliminate it. In addition, if efforts to cut the deficit were only partially successful and a sequestration did occur, it applied to all programs not specifically exempt from all sequestrations. The reductions occurred whether or not those programs had already been cut in the effort to reach the target. Furthermore, in the case of programs exempt from sequestration, advocates of those programs were free to try to increase

spending in those programs or defend them from cuts without worrying about whether their actions would trigger a sequestration.

The BEA makes it far easier to identify those responsible for departures from the budget agreement, and it applies sequestration more precisely than Gramm-Rudman-Hollings. If discretionary spending exceeds the cap, legislation within the jurisdiction of the appropriations committees is clearly responsible, and any resulting sequestration applies only to the discretionary spending within the relevant category (or to all discretionary spending in 1994 and 1995). If the PAYGO scorecard shows a net deficit increase, those who supported legislation that increased mandatory spending or reduced revenues are clearly responsible; any sequestration that does occur applies only to mandatory spending.

However, the BEA's ability to target accountability precisely comes with a cost. By holding participants harmless for things that are beyond their control (such as the growth in the deficit because of deteriorations in the economy), the BEA does not force action to offset deficit increases that occur because of these factors.

Flexibility. In addition, any budget process must be flexible enough to deal with unforeseen circumstances that require budgetary responses. For

example, the federal government often needs to engage in countercyclical fiscal policy when the economy is in recession. The federal government also responds to other emergencies, such as natural disasters or international crises, that cannot always be anticipated.

The budget process must recognize these realities; indeed, any budget process that does not allow such flexibility is likely to collapse if it cannot cope with unforeseen circumstances. The BEA, for example, assisted in this goal by establishing an explicit exception for discretionary appropriations, mandatory spending increases, or tax cuts that the Congress and the President designate as emergencies.

ANALYZING PROPOSED STRUCTURAL REFORMS

What do these lessons mean for the Joint Committee's deliberations? Clearly, they teach us that the budget process is more useful for some purposes than it is for others. That is, though it may be tempting to concentrate on procedures that attempt to force some specific outcome (such as reducing the deficit), it is probably most important for this Committee to look at the budget process from a different angle. That is, how can the process be changed in a way that would provide better information for budget decisions,

or improve the viability of the process? True budget reforms should make things better, not worse.

I would like next to review several changes that have been proposed over the past few years. They include changing the following:

- o The timing of some budget decisions;
- o The President's role in the budget process;
- o The coverage of the budget; and
- o The information provided to decisionmakers.

Timing of Budget Decisions

The decisions that drive the budget process in the Congress--budget resolutions, authorizations, and appropriations--are currently adopted according to varying timetables. Although budget resolutions and appropriation bills are adopted annually, authorizations vary widely in duration. Some programs are reauthorized frequently; others may go many years between reauthorizations. Two different types of reforms have been suggested that would affect the timing of budget decisions--biennial budgeting and sunset review for authorizing legislation.

Biennial Budgeting. Most proposals to go to biennial budgeting suggest enacting the budget resolution and appropriation bills every two years instead of annually. Twenty-one states have biennial budgets. The federal government has some experience in a haphazard way with multiyear budgeting--the 1987 summit agreement represented a two-year budget and the agreement of 1990 set discretionary spending parameters by category of spending for three years. A more systematic approach would have two-year budget agreements that could be reached in the first year of each Congress--that is, in odd-numbered years.

Proponents have argued that biennial budgeting would free up the Congress to concentrate on nonbudgetary issues (such as oversight) during the nonbudgetary year. Biennial budgeting, however, might also make agreements more difficult to achieve, since the stakes would be higher. Although some might argue that biennial budgeting would add stability to agency and program planning, the improvement may be less than it would seem; the ability to forecast budgets for future years is notoriously weak in biennial states. As an alternative, activities that are technically predictable and politically stable could be budgeted for on a biennial basis, without embracing biennial budgeting for all federal activities.

Sunset Review for Authorizations, and Zero-Based Budgeting. For many people, one of the biggest problems of federal budgeting is that programs, once started, never die. For this reason, numerous proposals in recent years have focused on two related types of reforms--sunset review and zero-based budgeting. Proposals for sunset review would typically put all federal programs on a periodic timetable for reauthorization (every 10 years, in most proposals). Programs that were not reauthorized according to the timetable would cease to exist. Zero-based budgeting is an even more radical type of reform that would require all federal programs to be justified from ground zero each year.

Critics of these types of reforms argue that they are overly rigid. Some federal programs may need to be looked at more frequently than every 10 years. Similarly, it may be a waste of time to consider whether others should continue to exist. This approach is consistent with the federal government's previous experience with a variation of zero-based budgeting in the Carter Administration. The reform created a great deal of paperwork, without achieving its aim of eliminating low-priority federal programs.

Increasing the Presidential Role in Budgeting

Some people argue that the President needs to be involved more fully and continually in the budget process. This argument usually focuses on the position of the President as the only elected official with a national constituency, and a need for the President to remain accountable at all stages of the budget process. Any effort to increase Presidential involvement, however, would necessarily decrease Congressional budget prerogatives. The two main proposed reforms that would increase Presidential budget power are requiring his signature on budget resolutions and granting increased authority for the President to veto individual items of appropriation.

Joint Budget Resolution. A common proposal for increasing the President's involvement would require a joint, rather than a concurrent, budget resolution. A joint resolution would need the President's signature. Proponents of this change cite the desirability of involving the President at an earlier stage in the process. They believe that this will encourage agreement on the broad outline of the budget, thus eliminating the need for budget summits toward the end of the Congressional session. In addition, supporters believe that this change would give the President more responsibility for the budget.

One cannot, however, involve the President more fully without changing the distribution of power between the President and the Congress and even within the Congress. Although the intention of this kind of a change is to force the two sides to agree, it could promote increased conflict and stalemate at an even earlier stage of the process, making it even more difficult to reach agreement on a Congressional budget. Further, a joint budget resolution would swell the importance of the budget resolution relative to later committee action, which would shift the balance of power within the Congress.

Line-Item Veto and Statutory Alternatives. Many Presidents have sought the authority to reduce or eliminate specific items in appropriation bills, a power possessed by 43 of the 50 state governors. The President currently has only two options--either to sign or veto a bill in its entirety. Proponents of the line-item veto say that having only these two options limits the President's ability to eliminate wasteful spending. Accordingly, they propose to empower the President to eliminate or reduce particular portions of appropriation bills (called line items), while approving the balance of the bill. They argue that the President, as a representative of the general interest, should have the power to strike provisions that serve only a narrow interest.

Various statutory alternatives that are designed to have largely the same effect as the item veto have also been proposed. The most popular of these

would expand the current powers of the President to propose rescinding appropriated funds under the Congressional Budget and Impoundment Control Act of 1974. Expedited rescission proposals (such as H.R. 2164, which passed the House in the closing days of the 102nd Congress) are the most limited in their grant of authority to the President. They would require the Congress to vote on proposed rescissions, with a simple majority prevailing on the vote. At present, the Congress can kill the proposed rescissions simply by failing to act on the proposal.

In the case of either the line-item veto or some increase in the President's rescission powers, the Congress may want to consider three issues that opponents raise. First, because these measures would apply only to discretionary spending, which represents less than 40 percent of the budget, their ability to reduce the deficit is limited. Moreover, the ability of the veto to reduce spending is tied to the desire of an individual President to use the veto to reduce spending rather than to bargain for Congressional approval of his own spending priorities. Second, providing the President with the line-item veto is clearly a shift in power from the legislative to the executive branch. Third, the line-item veto and its statutory substitutes could increase the Congressional work load. Much more Committee and floor time than is currently spent might be devoted to considering vetoes or rescissions.

Coverage of the Budget

Disagreements also exist over budget coverage. For example, some critics argue that programs currently in the budget have characteristics (such as special financing sources) that should preclude their inclusion in the budget. Others claim that government policies that are currently not recorded in the budget but that allocate nonfederal resources (such as regulation) should be in the budget.

Moving Trust Funds Out of the Budget. In general, federal trust funds are on-budget. Some argue that trust funds are not regular parts of the government and should be put off-budget, primarily because the funds are financed by revenues that are specifically earmarked, and because the intent of the Congress was to make these funds autonomous from the annual budget process. This argument was used to declare Social Security to be legally off-budget, effective in 1986. Proponents of this change continue to argue that including these funds in the budget clouds the true causes and size of the budget deficit.

Supporters of retaining trust funds in the budget oppose any movement to exclude trust funds, because they believe not including the activities of these funds inaccurately depicts the government's role in the economy and its

drain on credit markets. The assets of these programs are, in fact, IOUs from the taxpayer; financing these programs relies on the same source of funds that supports all other government programs. Further, opponents argue that putting trust funds off-budget puts them on favored political footing.

Increasing the Activities Covered by the Budget. Others propose increasing the coverage of the budget, primarily by including either government-sponsored enterprises (GSEs) in the budget, or by capturing in the budget the costs shifted by the federal government to state and local governments or private businesses.

GSEs are privately owned and managed, but have an implicit federal guarantee. Financial markets believe that if a GSE encountered financial difficulty, the federal government would take over responsibility for its financial obligations. As a result, some argue that the GSEs' financial activities should be reported in the budget. Conversely, others argue that GSEs should not be in the budget because the budget should only record activities of government entities. If so, it is argued that GSEs, which are clearly privately owned, should remain off-budget regardless of the perception of financial markets.

Another proposal is to record the cost of federal activities on nonfederal entities (state and local governments or private businesses) in the budget. Currently, federal regulation and mandates can have zero budgetary costs to the federal government, since any resources allocated by the private sector and state and local governments to meet these laws and rules are not included in the budget. But regulations and mandates clearly have real economic costs, and many believe the current level of regulation and mandates is too high, partially because mandates and regulations (unlike spending) appear "free" to policymakers.

Critics of current practice argue that the budget should include resources allocated by regulation and mandates. Others do not believe that these costs should be included in the budget for two main reasons. First, these costs can be quite difficult to measure accurately and cost-effectively in a way that makes them comparable with other spending. Second, these are not federal budgetary costs; no federal spending necessarily occurs as a result of mandates or regulations on nonfederal entities. To the extent that it does (that is, to the extent that mandates or regulations are "funded"), the budget already captures these costs.

Changing Budgetary Accounting or Information

Policymakers respond to the relative costs of various items in the budget, to the information provided in the budget process, or to both. For this reason, in order to correct some perceived bias, numerous proposals have focused on changing the way that the budget accounts for certain activities (or providing supplemental information on the implications of these activities). These reforms include adopting capital budgeting, expanding the use of accrual accounting, and embracing performance budgeting.

Capital Budgeting. Current budgetary accounting does not distinguish between funds spent on investment, which create future benefits, and those spent on consumption, which create benefits in the present. Some analysts argue that the budget should record the cost of investing over the life of the investment.

Supporters of that accounting treatment for investment suggest that the current cash treatment leads to a bias against federal investment. In their view, investment appears very expensive relative to consumption, as its full cost is recognized in the budget when the project is begun, even though the true economic costs (depreciation) occur over many years. They also argue that using cash-basis budgeting to account for investment leads to a

misleading measure of the deficit; for example, the current deficit measure implies that taxpayers would bear the full burden of a road currently built, rather than sharing costs with future beneficiaries. In addition, measuring the cost of an investment over its life, it is argued, makes the deficit a more accurate measure of federal consumption spending.

Opponents of capital budgeting argue that the budget should not be accounted for in a way that makes some spending appear "cheaper" than other spending. They believe that current accounting appropriately forces the government to face the cost of programs when spending is controllable. Perhaps even more significantly, they believe that it will be impossible to determine which federal programs represent investment and which consumption. Supporters of increased spending for government programs are likely to argue that the programs they support are investment, since by doing so, the programs will receive beneficial budgetary treatment. As a result, opponents of capital budgeting fear many consumption programs will be miscategorized as investment. These critics also claim that determining the time period over which the costs of investments should be spread (or depreciated) would be almost impossible. Since programs spread over longer periods will appear to be cheaper in each year, they believe that many programs will be said to last longer than they really do.

An alternative would be to maintain current accounting practices but provide more information concerning the difference between spending on consumption and investment. This information would solve the problem created by the difficulty of measuring depreciation, but there are still likely to be incentives to categorize many programs as investment.

Using Accrual Accounting for Government Insurance Programs. The government provides insurance against a variety of risks. The two largest insurance programs are deposit insurance (insuring depositors against the failure of financial institutions) and pension insurance (insuring pensioners against the failure of a plan's sponsor to pay pensions).

Accounting for the cost of these programs when cash is paid to the insured, critics claim, does not accurately reflect the cost of the program when the costs are actually occurring. Critics of cash accounting for these programs suggest that this system allowed the government to ignore the mounting losses of deposit insurance because the actual cash payments to depositors were not going to be made until the future. By the time the budget began to record the payments to the insured, there was no way to prevent paying on the losses that had already accumulated. Critics of the current system suggest that moving to accrual accounting--as was done for credit programs under credit reform--could be used for insurance programs. In such a case, an estimate of

future losses, which would be used to count as outlays, could be made when the insurance is provided.

Opponents of moving from cash-basis budgeting believe that a noncash basis of budgeting for insurance will invite budgetary shenanigans, since insurance costs would be based on estimates and not actual cash flows. Further, they hold that the technical procedures required to estimate future insurance losses, based on today's actions by the insurer, are not reliable enough to be included in the budget. Moreover, they claim that the cost of developing reliable noncash measures is far greater than any benefits that can be provided. Finally, they believe that measures of the cost of providing insurance are already available to the Congress in nonbudgetary related documentation; the Congress can use this information to make responsible decisions without changing budgetary accounting.

Performance Budgeting. Legislation that passed the Senate in the 102nd Congress and has been reintroduced in the 103rd Congress would mandate strategic planning and performance measurement for federal agencies, and would require several pilot projects in agencies linking performance measures to the budget process. Proponents of performance budgeting cite its potential to bring about a basic change in the process of allocating resources by concentrating not on inputs but on the results that government programs

achieve. They envision a budget process in which line items are a thing of the past and policymakers primarily focus on choosing levels of results, rather than on funding levels.

Although one can hardly argue that government programs should not measure and report results, opponents maintain that the payoffs associated with performance budgeting depend on two conditions: the extent that this concept would be extended to agencies that currently do not measure the results of their activities, and finding a way to link the measures to budget outcomes. There are limits to the ability of performance measurement efforts to satisfy these two conditions. First, many agencies have already made strides in measuring the results of their activities, rather than only the activities themselves. Thus, the potential for additional improvement may be less than is commonly thought. Second, the connection between performance measures and resource allocation is not straightforward. For example, should "bad" performance lead to additional resources (because past resources were inadequate to meet performance targets) or budget reductions (because resources would be better used elsewhere in the budget)? Past experience with performance-based systems highlights this problem. One view is that reforms such as zero-based budgeting failed in part because no one knew how to make this connection.

CONCLUSIONS

Before drawing any conclusions, I would like to insert what may be an unhelpful comment. Current budget procedures would look a lot better if we were not staring a \$300 billion deficit in the face. In a world where the budget was nearly in balance, attention would be focused on the ability of the budget process to respond expeditiously to changing priorities at the margin (shifting funds from defense spending to domestic spending, for example). Although current procedures might not score an A+ even on this limited agenda, the clamor for reform would be much quieter. I bring this up because someday the budget deficit may be behind us--not because we reformed the process, but because we adopted suitable policies. We will then want a process in place that is suited to the marginal adjusting that is historically the role of budgeting.

My advice to the Committee is to approach the possibility of making changes to the budget process systematically and carefully. First, avoid diverting your attention toward outcome-focused reforms, such as a balanced budget amendment or a cap on mandatory spending, for the reasons that I have cited. Second, although the general structure of the budget process is certainly an appropriate and potentially fruitful focus of your activity, you should approach such ideas for reform with healthy skepticism. As my

previous discussion of various ideas for reform demonstrates, both sides of these issues bear strong argument. One of your most difficult tasks will be to evaluate these pro and con arguments in order to determine whether a given reform would represent a net gain or a net cost.



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

March 30, 1993

Honorable Lee Hamilton
Co-Chairman
Joint Committee on the Organization
of Congress
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 9, requesting a response to a question concerning the concept of GNP budgeting.

As you suggest in your letter and the attached newsletter, some economists have argued that the federal budget process is overly concerned about the categorization of revenues and spending, to the exclusion of concern of the total effect of federal budget policy and private decisions on the economy. To these observers, the important issue of federal budgeting concerns the impact of policies on the allocation of all resources (public and private), as measured by the gross national product (or the gross domestic product). They have advanced proposals to include information on the effect of proposed policies on the economy as a whole. Typically, they recognize that "GNP budgeting" cannot replace the revenue and spending budget, but they argue that information about how policies affect the economy is currently downplayed in deference to a discussion of how much a given policy "costs" the federal government.

This proposed change is, I think, a useful way to think about the budget. In fact, the CBO has for many years published data not only on taxes and spending, but on how the budget relates to the overall economy. GNP budgeting would go a step further by more explicitly focusing on the federal government's effect on particular sectors of the economy. These might include, as Herbert Stein suggests, components of the economy such as education, consumption, private investment, public investment, defense, and health care. I agree with the conclusion of those who advocate this change that current deliberations on the federal budget should be much less about the level of federal taxes or federal spending for their own sake, and much more about the effect of federal policies on the economy.

Honorable Lee Hamilton
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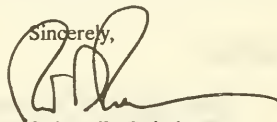
Let me add a final point in favor of this change. As you recall, one of the primary motivations for the adoption of the Budget Act in 1974, and the requirement for budget resolutions and the creation of the Budget Committees, was that the Congress should have the opportunity to debate national priorities and then set some comprehensive outline for the nation's fiscal policy. Recently, however, the budget resolution and Budget Committees have been forced to concentrate much more on reducing annual deficits and enforcing deficit reduction than on evaluating the consequences of alternative fiscal policies. GNP budgeting might have the added benefit of shifting the budget debate back toward considering the nation's long term goals and the policies needed to attain them. This means that GNP budgeting is completely consistent with the goals of the 1974 Act, and with the ability of the Congress to focus comprehensively on the budget, which I think is a capacity that (as I suggested in my statement to the Committee) should be maintained and strengthened.

Two caveats are in order. First, since even the proponents of this change do not argue for changing budgetary accounting, but for increasing the amount of information provided to policymakers, the effect of this change on the explicit legislative behavior of policymakers might be quite limited. This limited role of GNP budgeting might suggest to some that explicit GNP and sectoral effects of any budgetary change be calculated, displayed and voted on. But this raises a second concern. If this concept were to be applied at the level of individual policies, it might be quite difficult for the federal government to develop a capacity to measure the effects and to add them up in a consistent manner.

In sum, GNP budgeting is a solid contribution as a way to sort out and think about fiscal policy choices. A separate budget process would still be needed to effectuate policy.

Thank you for your interest in my views on this issue. I would be happy to provide you with any additional information that you require.

Sincerely,

A handwritten signature in black ink, appearing to read 'RD Reischauer', with a long horizontal flourish extending to the right.

Robert D. Reischauer
Director

cc: Honorable David L. Boren, Co-Chairman
Honorable Pete V. Domenici, Vice-Chairman
Honorable David Dreier, Vice-Chairman



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director
March 30, 1993

Honorable Lee Hamilton
Co-Chairman
Joint Committee on the Organization
of Congress
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of March 19, requesting responses to questions from Vice-Chairman Dreier and Congressman Emerson. My responses to these questions are attached.

Please do not hesitate to contact me if I may be of any further assistance.

Sincerely,

A handwritten signature in dark ink, appearing to be 'RDR', with a long horizontal flourish extending to the right.

Robert D. Reischauer

Attachment

cc: Honorable David L. Boren, Co-Chairman
Honorable Pete V. Domenici, Vice-Chairman
Honorable David Dreier, Vice-Chairman

Question from Congressman Emerson

Question: Dr. Reischauer, in your statement you emphasized that the budget process must be fair. As I understand your statement, you defined fairness as treating participants equitably. Later on, you infer that the inability to assign responsibility within the system, particularly under Gramm-Rudman-Hollings, for excess spending does not meet a standard of fairness. Could you expand on the elements you believe are necessary in order to create a "fair" budget process?

Answer: When I talk about fairness, I am mainly referring to the fact that participants in the process must not believe that rules and sanctions are applied in an arbitrary fashion, or the process will lose legitimacy. As I suggested in my statement, one of the problems with Gramm-Rudman-Hollings was that the sanctions (that is, the sequestration of spending) did not lie against those Members of Congress whose actions resulted in the failure to achieve deficit targets. This lessened the incentives for many participants to support policy actions to reduce the deficit, because many programs were exempt from sequestration and because sequestration only was affected on the spending side of the budget. Those who supported spending on exempted programs, or who opposed all tax increases, had incentives not to participate in the deficit reduction effort. This was viewed as unfair by those who supported programs that bore the brunt of sequestration. The Budget Enforcement Act (BEA) addressed this situation by creating two separate sequestrations--one for discretionary spending and one for mandatory spending.

Further, Gramm-Rudman-Hollings, with its emphasis on fixed deficit targets, was not viewed as fair because it required actions to be taken in response to circumstances that were beyond the control of participants, such as the performance of the economy. The BEA, by eliminating fixed deficit targets, put in place a fairer process by holding participants accountable for those things that are under their control.

I believe that these two related attributes--the ability to identify those who are responsible for actions and holding participants accountable only for those actions that are under their direct control--is crucial to the success of any budget process.

Questions from Vice-Chairman Dreier

1. Dr. Reischauer, one of the major themes in your testimony is that the budget process works best when used as an enforcement mechanism, as it was under the Budget Enforcement Act, rather than as a device to compel a predetermined fiscal policy outcome, such as the deficit reduction targets under Gramm-Rudman-Hollings. I think it is fair to say that the budget deficit has continued to grow without regard to the type of budget process devices employed. The fatal flaw may be that, in each case, the processes provided loopholes through which spending could be driven. I would like to get your views on the budget process from a slightly different angle. Should the budget process be designed in such a way that it either tilts toward making it slightly easier for Congress to spend, slightly more difficult to spend, or should the process be completely neutral?

Answer: While the Congress can choose to create a process that either encourages spending, discourages spending, or is neutral with regard to spending, this choice reflects not economics or process "rules," but a political judgment concerning what role you want government to play in the economy. For this reason, I do not believe that discouraging or encouraging spending is a necessary attribute of the budget process. If the Congress believes that government spending is too high for some programs, it should reduce that spending. If it believes that spending is too low for a particular program, it should increase it. History does show us, as I suggested in my testimony, that making general pronouncements concerning budget outcomes without specifying how these outcomes will be achieved has not proven useful.

Having said that, I should point out that caps on discretionary spending, which are a type of discouragement to spending, have proved effective. The key is the role of the "avoidance mechanism," which is the opposite of the enforcement mechanism. The very fact that discretionary spending is annually appropriated is what makes the caps work. Because mandatory spending and taxes are based on permanent law, the President and the Congress can avoid making promised future cuts simply by failing to take action. But appropriators must act every year in order to provide funding for discretionary programs. They cannot evade the caps by simply failing to act. Instead of the caps being a device to force future actions, they are mechanisms that limit future actions.

2. At page five of your prepared statement, you offer the view that the BEA was largely successful in enforcing the budget agreement of 1990. You also state that the deterioration of the economy and technical reestimates of revenue and spending, especially in Medicare and Medicaid, are largely responsible for the increases in the projected deficit and that Congressional policy decisions had virtually no effect on the deficit. Yet, you criticize the BEA for not including any procedures to reconsider the budget rules if the projected deficit were to expand. I have two questions. First, what alterations in the rules would you have recommended? Second, would changing the rules in the face of increased deficit projections be in conflict with your general view that the budget process should merely "enforce" prior decisions?

Answer: The statement, on page 5 of my prepared testimony, that the BEA did not "include any procedure to reconsider the rules were the deficit outlook to deteriorate" was less a criticism than it was a statement of fact. You are correct to point out that it would be difficult to design a process with such a "trigger" to action without running into the same problem that was so clearly evident under Gramm-Rudman-Hollings. There are, however, other options. One would be for the Congress to require that the President present a plan for dealing with a deterioration in the deficit outlook, if and when one surfaces. A second would be to specify some set of specific deficit reduction actions that would be triggered if the actual deficit exceeds the projected deficit. For example, an income tax surcharge, a specific set of spending cuts, or both could be triggered when the actual deficit exceeds the projected deficit for a given fiscal year. The level of the tax increases or spending cuts would depend on the level of the deterioration.

3. In your statement, you take note of the criticism of the current budget process that votes on the same spending decisions recur numerous times during the fiscal year. Yet, you appear to dismiss the criticisms without much comment. Do numerous, and sometimes contradictory, Congressional decisions on programmatic items engender confidence in the larger budget process?

Answer: Certainly the budget process has been criticized for resulting in recurring votes on the same issues numerous times during the fiscal year. While this may be a problem that is frustrating to Members and may not engender confidence in the budget process, it is not necessarily a problem that results from the structure of the process, as opposed to how that process is carried out. For example, amendments to the budget resolution that focus on specific programs are often voted on in spite of the fact that the function of the budget resolution is to set broad parameters for the budget, as opposed to specifying particular policy actions. Further, some of this redundancy results from the widespread practice of voting on so many authorizations annually. If more programs were authorized for a longer period of time and if the budget resolution focused only on broad budgetary goals, this problem would be much less significant.

4. At page 15 of your prepared statement, amidst the discussion of the necessity, as you see it, for flexibility in the budget process, you state that the BEA assisted in the goal of flexibility by providing for an exception to the strictures of the Act by permitting the Congress and the President to declare an "emergency". Many of us believe that the emergency designation has been misused on occasion. Do you believe that the emergency designation under the BEA has worked as it was intended? What modifications, if any, would you make to those provisions?

Answer: The emergency provision included in the BEA has really not been used a great deal. In fact, as Table 1 in my prepared statement indicated, the changes in the deficit outlook since the 1990 budget agreement have almost exclusively been because of economic or technical changes, rather than because of changes in policy. One reason that the emergency provision has not been used much is that, during the Bush administration, the Congress and the President rarely agreed concerning what constituted an emergency. With the end of divided government, of course, there may be greater potential for the use of the emergency designation to push costly spending outside of the BEA's controls. Nonetheless, some kind of provision for emergencies is probably, as I suggested in my statement, unavoidable if we are going to have a budget process that will be able to respond to changing circumstances. I am not convinced that a change in the current procedure is necessary. But if the Congress wanted to make it more difficult to enact emergency legislation than is currently the case, it could require supermajorities in both houses in order to declare any spending as an emergency.



5. In your remarks, you group two proposed reforms, sunset review for programs requiring an authorization and zero-based budgeting. I understand your criticism of ZBB that the process merely creates a lot of paperwork without much result as the experience of the Carter Administration demonstrated. Could you explain in more detail why you do not appear to believe that sunset review could be effective? Would a more flexible sunset proposal which would give the committee of jurisdiction a range of sunset options (for example, a minimum of five years to a maximum of ten years) in enacting authorizations be more effective?

Answer: You are correct that sunset review and zero-based budgeting are not the same thing. They are similar, however, in that each would require all federal programs to be justified periodically "from the ground up". Zero-based budgeting in its pure form is a much more radical type of reform in that it would generally require all programs to undergo this type of scrutiny every year. This is almost certainly, as past state and federal experiences suggest, overkill. Sunset review could be a useful tool for reviewing programs more systematically, however. It certainly addresses a real concern--that is, that federal programs, once created, have a tendency to live forever. A problem with many sunset proposals is that they place all programs on the same review schedule (every 10 years, for example). For some programs, this may not be frequent enough; for others it may be too frequent. Offering a range of options in the timing of authorizations for programs subject to sunset review, as you suggest, might be a more workable option.

6. One of the issues in the budget process that the Joint Committee will be examining is the nature of the information provided to Members. For example, do you believe that the unified budget is the best means to present the financial condition of the federal government? If not, what alterations would you recommend?

Answer: I do believe that the unified budget should be maintained. The unified budget is intended to comprehensively cover the federal government's cash flows. The objective of comprehensive coverage in large part resulted from President Johnson's 1967 Commission on Budget Concepts, which recommended that agencies owned or controlled by the federal government should, with rare exception, be included in the budget. The Commission supported comprehensive coverage because: (1) having more than a single, comprehensive budget and a single unified, budget total (deficit or surplus) led to confusion in the public and among decisionmakers, (2) comprehensive budget coverage allows policymakers and analysts to better understand how government spending and revenue collection affects the economy, and (3) government resource allocation would be improved if all government programs were included in the budget and were subject to and controlled by the budget process.

Compliance with unified budget concepts does not prohibit the provision of supplemental information, or the division of the unified budget into components for display purposes. Thus, many of the reforms that people have suggested for changing the information provided to decisionmakers in the budget process (including GNP budgeting, reporting accrued liabilities for certain insurance programs, and certain forms of capital budgeting that would report on consumption vs. investment spending) could be accommodated within the unified budget. Although I would not specifically endorse any of these reforms, I believe that each of them is worthy of the Joint Committee's attention.



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